THE TEXT IS LIGHT IN THE BOOK

WHOLESALING

PRINCIPLES AND PRACTICE

By

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To

ESTHER G. BECKMAN

AND

RUTH H. ENGLE

PREFACE

Wholesaling is one of the major segments of the modern business structure. Its magnitude is attested in part by the fact that in the United States alone this field of enterprise provides employment to more than a million and a quarter people, paying them in excess of two billion dollars in salaries and wages, and reports an annual business aggregating more than $42 billion. In many respects wholesaling occupies a strategic position in the distribution of goods and furnishes the battleground for the competitive struggle now in process, the goal of which is a more efficient marketing system. Consequently, a thorough understanding of the essence of wholesaling, its component parts and their functioning in the business world of today may hold the key to the solution of many perplexing marketing problems.

Ever in a state of flux, the many influences which have impinged upon wholesaling in recent years have made the field even more dynamic and more keenly competitive, even though the channels of competition are being more clearly defined and somewhat narrowed by legislation and governmental regulation. This circumstance forces business executives engaged in or concerned with wholesaling to keep abreast of the tides of change and to apply the best practice to their business.

Despite its importance and dynamic nature, wholesaling has been largely neglected by scientific investigators. Business men generally, economists, students of marketing, and even wholesalers themselves admittedly know altogether too little about the field. The authors of this book have therefore essayed to direct the searchlight of scientific inquiry and analysis into this sector of our national economy. It is the hope of the authors that this book will fill the need for an up-to-date textbook in courses in wholesaling or advanced marketing and that the scientific student of marketing, the economist, and statistician may find this treatise helpful in their efforts to arrive at a sounder appraisal of this neglected field of economic endeavor.

Above all it is hoped that business men themselves will find this volume of practical value to them in the solution of their distribution problems. It is directed not only towards wholesalers but towards every producer with a selling problem and every retailer and industrial consumer with a buying problem.

It is suggested that all readers of the book first familiarize themselves with the basic concepts developed in the first six chapters. Following these, wholesalers, manufacturers, industrial distributors, agents or brokers, and large-scale retailers will of course emphasize different aspects of the treatment in accordance with their respective interests. The authors have attempted to plan the chapters so that different topics may be readily selected for more intensive consideration as desired. In such selection, it is felt that the chapters on scientific management applied to wholesaling, and wholesaling and the government will, like the first chapters, be of interest to every one.

The preparation of the work has been strictly cooperative, both authors having contributed to the final form of each chapter. The authors are deeply indebted to many sources for assistance in preparing the manuscript. Particular credit is due to Dr. Ruth H. Engle, whose contribution in reading and criticising the manuscript and in preparing the index has been invaluable. Dr. Wilford L. White has also been of great assistance to the authors, in his reading of the manuscript and in the writing of Chapter 28. The authors are especially indebted to Dr. W. H. S. Stevens for his careful reading and helpful criticisms of Chapters 22, 26, and 29; to Mr. E. C. Ropes, Chief of the Russian section of the Department of Commerce, for his assistance in the preparation of Chapter 26; and to Mr. Guerra Everett, for the legal aspects of Chapter 29.

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January, 1937 NATHANAEL H. ENGLE

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WHOLESALING

PART I—THE NATURE AND EVOLUTION OF WHOLESALING

CHAPTER 1

THE RENAISSANCE OF WHOLESALING

Scarcity of Literature on Wholesaling.—The field of wholesaling, unlike that of retailing, is conspicuous for the limited number of books in its literature. While books on various phases of retailing abound, there are few important treatises available to the student of wholesaling. In view of the importance of wholesaling in our economic life it is difficult to account for this neglect. The secrecy long maintained by wholesale organizations relative to their methods of doing business has contributed in no small degree to the lack of knowledge on the part of those outside the fold. Unfortunately, there are still too many wholesale organizations which believe that business facts are strictly confidential; consequently, they refuse admittance to scholars and to other outsiders. While this view is still shared by some manufacturers, it is not so prevalent in retailing.[1] The larger retail organizations have long since abandoned such tactics, and the smaller retail establishments are so numerous and accessible that much is known concerning retail operations. Thus research has been hampered in wholesaling much more than in retailing.

A second reason for the unusual scarcity of literature on wholesaling has been a rather strange lack of curiosity on the part of the public at large and particularly among scholars and market investigators. The basis for this apathy seems to lie in three general misconceptions: first, that wholesaling refers only to the operations of wholesalers; second, that the wholesaler is rapidly becoming obsolete; third, that wholesaling differs in no

[1] In fact, one of the leading manufacturers refused to sign the code promulgated by the President of the United States for his industry under the National Industrial Recovery Act because, it is said, the manufacturer was reluctant to "open his books to competitors."

important respect from retailing. That the conception of wholesaling which relates the term solely to the operations of wholesalers is narrow and erroneous will become apparent from a later discussion of the nature of wholesaling. This prevailing popular notion has done great damage to a phase of economic activity which is as inescapable as the operation of the law of supply and demand. The general opinion that the wholesaler's importance is waning has tended to discourage research in a most needed direction. Indeed, the prediction of the imminent disappearance of the wholesaler has been made so regularly and so assiduously that the prophets themselves have come to believe in their own prophecies. Persons in rather responsible positions, private and governmental, who should know better, have gone so far as to claim that the wholesaler has already vanished from our marketing structure; hence it is not strange that the field has been shunned and neglected.

Even when the wholesaler's existence has actually been recognized, little attention has been devoted to him and to his activities on the assumption that such activities are similar to, or identical with, those of retailers. Some authors, after stating their intention to cover both fields, have immediately proceeded to discuss the various phases of retailing without paying the slightest attention to wholesaling.

A third, and probably the most important reason for the paucity of wholesaling literature lies in the complexity of the subject. As will be seen from the chapter immediately following, the nature of wholesaling is so difficult to understand and the wholesale structure is so complex and comprehensive that few have ventured to explore its intricacies. It is this complexity which explains in part the synonymous treatment accorded to *wholesaling* and to the *wholesaler,* despite the fact that the wholesaler is but one of many agencies engaged in wholesaling.

Growing Interest in Wholesaling.—A quickened interest in marketing problems generally has been apparent since the close of the World War. This has had its repercussions on the field of wholesaling. Not until after the middle twenties, however, have specific evidences appeared in the United States of a re-

newed interest in wholesaling. Since that time the importance of the subject has been gaining wider recognition, and considerable research has been undertaken in the past several years which throws much light on this little-known segment of our national economic life. For the first time in its history, the American Economic Association provided in its 1927 convention program for a discussion of wholesale trade.[2] Other developments tending to bring the subject to the forefront followed in rapid succession. Among them may be listed the following: research activities of educational institutions; the educational campaign of the Missouri River Valley hardware wholesalers inaugurated in 1927; the National Distribution Conference of 1925; the National Wholesale Conferences of 1928 and 1929 conducted under the auspices of the Chamber of Commerce of the United States of America; the Louisville Grocery Survey of 1928; the first Census of Distribution, 1929; the Census of American Business, 1933; the Census of Business, 1935; studies in wholesaling by the United States Bureau of Foreign and Domestic Commerce, by trade associations, and by the National Recovery Administration.

Research in Wholesaling by Educational Institutions.— Some individual bits of research in the field of wholesaling have no doubt been carried on under the auspices of the various colleges and universities for some time. It is probable, however, that the earliest recognition given to the subject by an American university was in 1916, when the Bureau of Business Research of the Harvard University Graduate School of Business Administration published a study on "Operating Expenses in the Wholesale Grocery Business." This publication was followed by studies of the wholesale automotive equipment business, the wholesale drug business, the wholesale dry goods business in the South, the wholesale paint and varnish business, the wholesale plumbing and heating supply business, shoe wholesalers, wall paper wholesalers, and the wholesaling activities of grocery manufacturers. The leadership of Harvard was soon followed by the bureaus of business research of a number of

[2] *The American Economic Review*—Supplement, Vol. XVIII, No. 1, March 1928, pp. 17-18, 24-26.

other universities. Such studies, however, have to date been of a fragmentary and sporadic nature. No attempt has yet been made by any educational institution to explore the subject in any comprehensive, orderly fashion in all of its phases.

Educational Campaign of the Missouri River Valley Hardware Wholesalers.—The new-born interest in wholesaling noted above led a number of the leading hardware wholesalers operating in the Missouri River territory to organize late in 1927 for the purpose of studying and analyzing the wholesaler's economic position in the field of hardware distribution and to make the results generally available. This action was prompted by an alarming decrease in the wholesaler's volume of business accompanied by a large number of failures among hardware retailers. It was discovered that a most important factor contributing to the failure of hardware retailers was their attempt to go around the wholesaler and buy directly from manufacturers. The increased costs of distribution to the manufacturers resulting from the direct-selling procedure were reflected in higher prices to the retailers than had been anticipated. This, coupled with the retailers' inability to secure the usual accommodations and services obtainable from wholesalers, spelled the doom of many otherwise successful retail merchants.

When investigation finally revealed the truth of the situation, the hardware wholesalers in the territory felt it incumbent to counteract the growing tendency of retailers to buy directly from manufacturers. An educational campaign was inaugurated, designed to offer a clear exposition of the wholesaler's place in our distribution structure and to point out the economic soundness of distribution of hardware through wholesalers. One of the first steps in this educational program consisted of a booklet discussing the functions of the hardware wholesaler, which was given wide distribution throughout the United States and Canada and was reprinted in all leading hardware trade journals.[3] This was followed by a series of full-page advertisements in trade magazines devoted to the analysis of wholesale functions, usually one function being analyzed in a single advertisement.

[3] T. N. Beckman, "The Economics of Hardware Wholesaling," monograph published by the *Implement and Hardware Trade Journal*, Kansas City, Mo., 1927.

Special contests were then conducted among hardware retailers and among wholesalers' salesmen tending to acquaint both groups with the economic functions of the hardware wholesaler. This program is said to be the first of its kind in the history of wholesaling, and gained widespread attention among business men, educators, and many organized groups interested in the study of distribution problems.

The National Wholesale Conferences.—Additional evidence of the awakened interest in wholesaling appears in the records of the National Wholesale Conferences of 1928 and 1929. The first National Distribution Conference, called by the Chamber of Commerce of the United States, met in January, 1925, to study various marketing problems, including wholesaling. Early in 1928 the same organization called a National Conference of about 300 wholesale executives to discuss problems in the wholesaling field. This was the first nationwide conference devoted to wholesaling. For some time there had been a widespread feeling that in many lines of trade wholesalers had been confronted with new and trying conditions which had not always been met successfully, and that there existed a state of flux which did not augur a stable future in the industry. It was therefore deemed desirable for wholesalers in many lines of trade to convene for a free and frank discussion of the common problems facing them. It was the declared purpose of this first conference to consider the existing status of the wholesaler, the nature of the services and functions performed in different lines of trade, the economic factors affecting wholesaling, means of determining operating efficiency in the wholesale field, and matters relating to the granting of credit and making of collections. Following a two-day discussion of the various questions and problems raised, four committees were appointed to handle the selected phases of wholesaling which required formal study, the findings to be reported at the next conference to be held a year later under the same auspices.

The second National Wholesale Conference met in Washington, D. C., in the spring of 1929. At this time four reports were submitted by as many committees, containing an

analysis of the respective phases of wholesaling previously assigned. After due consideration and discussion the reports were adopted and published; they now constitute one of the contributions to the literature of wholesaling.[4]

On the score of wholesalers' functions and services it was concluded among other things:

1. That the efficient wholesaler can perform the functions of distributing goods from producer to retailer economically if he will properly cooperate with all interested parties.
2. That the system of distributing goods through wholesalers is sound and the bulk of merchandise in this country is so distributed.
3. That it is the principal function of the independent wholesaler to buy goods in large quantities and to distribute them in amounts that can be packed and handled with the greatest economy.

Other functions which are normally performed by regular wholesalers were given due recognition and encouragement. The economic factors affecting wholesaling were recognized by the following recommendations:

1. That studies be made by lines of trade of the proportions of goods sold through various channels.
2. That efforts be made to develop and maintain better trade relations within each industry.
3. That recognition be given to the need for scientific analyses of sales in order that consumer demand may be properly coordinated with production and distribution.
4. That studies be made by manufacturers of their distribution costs.
5. That efforts be made to acquaint retailers with the services rendered by wholesalers and the advantages of buying from them rather than direct from manufacturers, and that retailers be educated to the advisability of purchasing from a limited number of sources.

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[4] National Wholesale Conference, Report of Committee 1, "Wholesalers' Functions and Services"; Report of Committee 2, "Economic Factors Affecting Wholesaling"; Report of Committee 3, "Business Analyses"; Report of Committee 4, "Credits, Sales Terms, and Collections"; Chamber of Commerce of the United States, Washington, D. C.

In order to accomplish many of the aims and purposes outlined by the committees a number of business studies and analyses were recommended, including, among others, studies of unit costs, selective buying and selling, size of orders, simplification of styles, stock control, and trading areas. Wholesalers were urged to analyze their individual businesses with a view of determining the profitableness of their enterprise by items of merchandise, by customers and territories, and in other ways. Some such studies have since been made by the Bureau of Foreign and Domestic Commerce of the United States Department of Commerce, and by a number of trade associations.

The Louisville Grocery Survey.—One of the more significant of these studies was a survey of the food business in the Louisville market which the Bureau of Foreign and Domestic Commerce conducted during 1928 and 1929. This came to be known as the Louisville Grocery Survey. It was inaugurated at the request of the Allied Food Committee of Louisville, which consisted of manufacturers, wholesalers, and retailers of food products in the Louisville market comprising the cities of Louisville, Kentucky, New Albany and Jeffersonville, Indiana. The primary purpose of the survey was to discover reasons for the unprofitable operations of the producers and distributors of food products during the "era of profitless prosperity" which preceded the depression. Louisville was used as a laboratory for experimental methods in distribution research which, it was hoped, might be adapted to other markets with the ultimate objective of making contributions to the elimination of waste in distribution. Financial assistance was given not only by producers and distributors of foods and groceries located in Louisville, but also by manufacturers and wholesalers outside the city, and extensive aid was rendered in the form of men, money, and equipment by manufacturers of office machinery, equipment, and supplies.

Several distinct types of investigation comprised the Louisville Grocery Survey. Part I consisted of a special census of food distribution in the Louisville market, covering total sales, inventory, expenses, and sales by commodities during 1928 for

all retail and wholesale grocery establishments, and sales of food and related products only for all other outlets handling such products. This census gave for the first time a fairly comprehensive picture of the mechanism that had developed over the years for the distribution of foodstuffs in the Louisville area. Part II related to a study of costs, markets, and methods in grocery retailing. Part III (A, B, and C) dealt with the merchandising characteristics of grocery store commodities. From the standpoint of wholesale distribution, however, the most important phase of the survey consisted of Part IV, dealing with the wholesale grocery operations. It represented "an intensive study of several phases of wholesaling groceries in the Louisville market." Data were gathered on business policy and organization, commodities handled, services rendered, operating expenses, size of orders, customers, territory served, and other factors that have a bearing on efficient operation. Several distinct types of wholesale houses were included in order to make possible comparisons.

Among the general conclusions drawn from the findings, may be listed the following:

1. In the grocery field the wholesale function can be economically and adequately performed by the independent wholesaler.
2. Retailer cooperation, through concentration of purchases with a few wholesale distributors, was found to be the most important single factor in reducing the cost of doing business to the wholesaler.
3. Customer education in ways of buying and merchandising was regarded as the most profitable means of sales promotion for the wholesale grocer. Once aware of the benefits accruing from such cooperation, retail grocers seemed to be quite eager to accept the wholesaler's assistance.
4. Nonperishable commodities, with a rapid turnover, limited assortment, little sales resistance, conveniently packed, and having a high value as compared to their weight and bulk were the most economical to handle.

5. Net profit did not necessarily result from either high gross margin or from low operating expenses but resulted instead from a proper correlation between the two items mentioned.[5]

Census of Distribution.—It was not, however, until 1930 that the first attempt was made to canvass thoroughly on a nation-wide basis all wholesale and retail establishments or places of business. As early as 1840, it is true, statistics had been compiled on the "Commerce of the United States" in conjunction with the Census of Manufactures for that year. The data collected were very scanty, however, and showed only a few items.[6] This early census of distribution was not repeated and had been long since forgotten when the first modern census was planned as a part of the fifteenth decennial census.

When the first National Distribution Conference of some 500 of the country's representative business men was called in January, 1925, by the Chamber of Commerce of the United States to consider the various problems of marketing, the lack of adequate data on distribution as a basis for intelligent discussion came conspicuously to the forefront. There was unanimous agreement on the need for accurate figures on marketing. Mr. Herbert Hoover, then Secretary of Commerce, was requested to appoint a committee to study the situation and to report on the need for and nature of the statistics which should be gathered on the distribution part of American business. Consequently, a Committee on Business Figures was appointed for the purpose of making an intensive study "into the scope and character of information needed as a basis for more orderly and less wasteful distribution." [7] The Committee report recommended that a census be taken covering the field of distribution. The facilities of the Bureau of the Census were offered for an experiment in this direction. With this cooperation by the Government, the Chamber of Commerce of the United States under-

[5] For a complete study of the results of the Louisville Grocery Survey, see Distribution Cost Studies, No. 6 (1930), No. 8 (1931), No. 11 (1932), No. 12 (1932), No. 13 (1932), and No. 14 (1932) of the Bureau of Foreign and Domestic Commerce, United States Department of Commerce, obtainable from the Superintendent of Documents, Washington, D. C.

[6] Statistics of the United States of America—1840, U. S. Census Office.

[7] Retail and Wholesale Trade of Eleven Cities, p. 5, Chamber of Commerce of the United States, 1928.

took a canvass of distribution in 1926, first for Baltimore, and then for 10 other representative cities, including Atlanta, Georgia; Providence, Rhode Island; San Francisco, California; Seattle, Washington; Springfield, Illinois; Syracuse, New York; Fargo, North Dakota; Kansas City, Missouri; Denver, Colorado, and Chicago, Illinois. So encouraging were the results of this sample census that a demand developed for more extensive information on the subject. An Act of Congress, approved June 18, 1929, embodied the requirement for the taking of a Census of Distribution covering the year 1929 as a part of the Fifteenth Decennial Census of the United States.

One of the major phases of the Census of Distribution was the enumeration of data covering all places of business operating during 1929 on a wholesale basis. A distinction should be made at this point between a *census* and a *survey*. In a census, the objective is to secure a *complete* enumeration of all the objects within a field of inquiry. Thus, in the wholesale census a report had to be secured for every type of wholesale establishment, regardless of its size, method of operation, or nature of organization, so long as it engaged in the sale of merchandise at wholesale. A survey, on the other hand, is normally confined to a part of the entire field. In other words, a survey deals with a statistical *sample* of a given field of inquiry, the sample frequently being conditioned by the scope, method, and special circumstances surrounding the investigation.

As a result of this census many of the concepts in the field of wholesaling were carefully defined for the first time, since a clarification of those concepts was an absolute prerequisite to a proper presentation of the statistics.[8] The data revealed by this census of the wholesaling structure in the United States presented the first comprehensive picture of this most important

[8] Approximately five million dollars was expended in taking the Census of Distribution. The results on wholesaling are now published in one extensive volume of quarto size and in a number of special studies of varying length. Publications of the 1930 Census of Distribution on Wholesaling: Vol. II Wholesale Distribution, 1619 pp., 1933; Wholesale Distribution Summary for the United States, 197 pp., 1933; Wholesale Distribution, county summary, 24 pp.; Assembling of Agricultural Commodities by Retailers, 155 pp.; Cooperatives as a Factor in the Distribution of Agricultural Commodities, 65 pp.; Distribution of Grain, 45 pp.; Groceries and Food Specialties, 95 pp.; Radio Sets, Parts, and Accessories, 30 pp.; Wholesale Electrical Trade, 68 pp.; Wholesale Hardware Trade, 55 pp.; Wholesale Trade in Paints and Varnishes, 33 pp.; Wholesale Distribution of Motion Picture Films, 26 pp.; and Multiple Types of Wholesaling, 44 pp. All of these were published by United States Government Printing Office, Washington, D. C.

phase of marketing, thereby providing a factual basis for a thorough analysis of the functions of wholesaling.

Census of American Business.—In the autumn of 1933 the Census Bureau laid plans for a second comprehensive Census of Distribution as a part of the Civil Works Administration program for providing employment for unemployed white-collar workers. This census, which was called a Census of American Business, was taken early in 1934. In addition to wholesale and retail establishments, service and amusement establishments were covered for the first time. As in the 1929 census, data were collected for 1933 on the number of establishments; number of employees, male and female; total salaries and wages; operating expenses; cost value of stocks on hand at the end of the year; net sales; sales made on credit; sales to retailers for resale; sales at retail to home consumers. In addition, sales to industrial consumers were secured on a more comprehensive basis than the 1929 census provided; moreover, sales by wholesale establishments to other wholesale organizations were gathered for the first time. Statistics were shown by kind of business as well as by type of establishment comparable to the method used for 1929, making possible a comparison of wholesaling during a year of prosperity with a year of depression. One of the principal limitations on the use of the first Census of Distribution for 1929 lay in the inability to make comparisons with other years. This has been remedied in part by the Census of American Business covering the year 1933.[9]

The results of the Census of American Business as well as those of the earlier census, provide a statistical portrayal of our business mechanism constituting a basis for clear thinking and sane action on economic questions. To the business man they should prove exceedingly valuable in affording him a comparison of his accomplishments with those of groups similarly operating in his city, county or state. In this way leaks and losses may be discovered which should lead to more efficient operation. To various trade associations and to those interested in eco-

[9] The cost of this census was approximately three million dollars. The data have been published by the roto-print process in a number of volumes.

nomic planning, the statistics should serve as a basis for action by throwing light on the scope and extent of each line of trade and of each type of distributing organization. The more significant data of the two censuses bearing on wholesaling are presented in the following chapters.

Census of Business, 1935.—The first two censuses of distribution served to sharpen the hunger of business men, economists, and statisticians for additional facts in this important field. One of the results of this awakened and growing interest in distribution facts was the formulation of plans for incorporating censuses of distribution as integral parts of the Census Bureau program. Early in 1935 plans were laid to take a third census of distribution, financed as was the second by relief funds. This *Census of Business* was even broader in scope than the second and included professions, transportation, insurance, and other forms of business not hitherto covered, although the basic pattern, set by the first two censuses, was followed with some modifications. Headquarters were set up in Philadelphia in the fall of 1935 and preparations were completed for the field work which started early in 1936. This census thus adds another year to the time series and makes possible a measure of the progress made out of the depression depths in the first two years of recovery. It gives the marketing statistician three points on his curve of trends in wholesale and retail distribution.

The United States Bureau of Foreign and Domestic Commerce.—The Department of Commerce has not restricted its research in wholesaling to the Census Bureau. The Bureau of Foreign and Domestic Commerce, as indicated before, has contributed to this field. For many years this Bureau has engaged in the study of foreign trade, particularly in the compilation of statistical information on exports and imports. Within recent years, however, special attention has been focused on domestic commerce. One of the latest developments is the creation of a separate section in the Marketing Research and Service Division dealing with wholesale trade. This section, set up at the behest of the Business Advisory and Planning Council for the Department of Commerce, should contribute much to our

knowledge of wholesale distribution in the future. Much of the work in this field will no doubt be of the analytical type, and of a more intensive nature than that done by the Census. Special attention should be given by this wholesale section to a study of industrial marketing, one of the phases of wholesaling which has been most neglected in the past. At least the foundation has been laid and the need for additional studies in the field of wholesaling has been officially recognized by the United States Department of Commerce.

Studies in Wholesaling by Trade Associations.—The renaissance of interest in wholesaling has not been confined to governmental bureaus. Many trade associations have been keenly aware of the need for a truer knowledge of wholesaling and for that reason have attempted from time to time to conduct investigations and to make studies of different phases of the subject. Illustrative of some of this research are the work of the National Wholesale Druggists' Association, whose principal activity has been in the cost analysis field; the National Wholesale Grocers' Association, whose chief contribution has been in the realm of general exposition of wholesaling problems; the Wholesale Dry Goods Institute, whose principal efforts have been devoted to cost studies and to general improvement in the wholesale distribution of dry goods; and the National Wholesale Hardware Association, whose work has been similar to that of the Wholesale Dry Goods Institute. Many other trade associations less well known have attempted from time to time to make similar studies of the economic position of the wholesaler and to engage in cost analysis. Examples of this type are the National Pipe and Supplies Association in the plumbing and heating field, the National Association of Paint Distributors, and the National Standard Parts Association in the automotive field. Others have encouraged such studies on a cooperative basis with universities or with Government bureaus.

The New Deal in Its Relation to Wholesaling.—The efforts of the New Deal to solve the pressing emergency problems of American business brought into bold relief the urgent need for a clarification of thinking on the subject of wholesaling. In

formulating codes of fair competition under the Agricultural Adjustment Administration and under the National Recovery Administration, much confusion arose whenever wholesale distributing trades were considered. First, there was the question as to which jurisdiction should assume charge of a given trade. Should wholesalers of farm products be subject to the control of the Agricultural Adjustment Administration or that of the National Recovery Administration? Which agency should have jurisdiction over wholesalers of foods, of groceries, of lumber and millwork? Should either of these agencies have power over wholesalers of petroleum or its products, or should that trade be exclusively under the Federal Petroleum Administration? Next came the problem of determining the extent of membership in the wholesale distributing trades. Here was indeed confusion worse confounded. Arguments developed without end as to what to do about chain-store warehouses, manufacturers' sales branches, agents and brokers, and some of the limited-function wholesalers.

The voluminous and protracted discussions of these points have served to focus business thinking on the need for more enlightenment on the subject of wholesaling and to crystallize some of the misunderstandings and misconceptions. Even though wholesale distribution, for code purposes, has been used in a rather narrow sense, nevertheless the efforts to codify wholesale trade served to point out its importance in our marketing mechanism and to bring the subject to the forefront. The exact nature of the contributions made through codes and their effect upon wholesaling during their short life is the subject for discussion in a subsequent chapter.

CHAPTER 2

THE NATURE OF WHOLESALING

A widespread misapprehension of the true nature of wholesaling prevails today in business and economic thinking. The dearth of thoroughgoing research in this field until very recently and the consequent scarcity of wholesaling literature pointed out in the preceding chapter account for this general misunderstanding. As wholesaling research continues and the vast body of comparatively new and raw data on the subject becomes better assimilated, a correction of false impressions and fallacious notions must evolve. It is hoped that the following discussion will contribute to sounder thinking on this subject.

Current Misconceptions.—As an approach to a clarification of the nature of wholesaling it seems appropriate to examine a few of the more persistent errors currently found in discussions of wholesaling. There is, in the first place, no little confusion as to the basic distinction between *wholesaling* and *retailing.* The first section of this chapter will deal with this problem. A second major difficulty is the failure to distinguish clearly between *wholesaling* (*wholesale trade*) and *wholesalers.* Since *wholesalers* are engaged in *wholesaling* activities it is very easy to fall into the error of identifying all *wholesaling* as the activities of *wholesalers.* The fallacy of such an assumption will appear from the subsequent analysis in this chapter. The cause of such erroneous thinking lies in the failure to define the two terms before using them. As a matter of fact, practically no attempt had been made in recent times to define these terms prior to the 1930 Census of Distribution. Even since then the Committee on Definitions of Marketing Terms for the National Association of Marketing Teachers experienced so much difficulty with these terms that no satisfactory definitions were

evolved.[1] A third misconception of wholesaling, and a very common one, identifies wholesaling with the activities of *wholesalers* in selling goods to *retailers.* This fallacy of identifying the part with the whole grows out of the prevalence of many of the better known types of wholesalers who do sell largely to retailers. It should be avoided as a narrow view of a broad subject. Another narrow use of the term *wholesaling* limits it to the operations of only those wholesale middlemen who take title to the goods in which they deal. This misapprehension would exclude many legitimate wholesaling establishments and their functions from the field of wholesaling. As a matter of fact such misconceptions actually did exclude many bona-fide wholesaling groups from the final wholesale codes promulgated under the National Recovery Administration between 1933 and 1935.

Basic Criteria in Defining Wholesaling

Compelling Need for Definitions.—In order to determine the true nature of wholesaling and thereby to avoid the pitfalls noted above it becomes necessary, first, to define a wholesale transaction and to indicate wherein it differs from a retail transaction. Most definitions, attempted before the first Census of Distribution provided an adequate factual basis for definitions, were clothed in vague and more or less general phraseology. To be sure, the veil which covered these definitions was due in part to the fact that no clear-cut distinction between wholesale and retail trade was practicable until ample facts became available, and partly to the pioneering nature of studies in wholesale marketing which necessitated blazing a trail into hitherto unexplored areas of economic thought.

It became necessary, therefore, as soon as the field canvass began for the first Census of Distribution, to provide as accurate answers as possible to the many practical questions raised by enumerators and supervisors. Among these questions were

[1] See "Wholesale Distribution—Definitions and Classifications," U. S. Bureau of the Census, 1932; also "Wholesale Distribution—Summary for the United States," U. S. Government Printing Office, 1933, and "Fifteenth Census of the United States: 1930," Distribution Vol. II, pp. 1-10, U. S. Government Printing Office, 1933. See also "Consolidated Report of Committee on Definitions," *National Marketing Review,* Vol. I. No. 2, pp. 148-166. November, 1935.

the following: Are lumber yards engaged in retail or wholesale business? Why are some of them called retail lumber yards while others which seem to be very little different from them are designated as wholesale lumber yards? Are sales to manufacturers, mines, public utilities, railroads, quarries, and oil well companies wholesale or retail transactions? Are establishments that sell various building materials and supplies to contractors, wholesale, or retail establishments? Should business houses selling to hotels and restaurants be regarded as engaged in wholesale or in retail business? Are barber supply houses and dental supply concerns engaged in retailing or wholesaling? How should one classify firms selling to farmers such items as machinery, equipment, and supplies? These are but a few of the questions on which a decision was urgently demanded. The answers to these questions necessitated the drawing of a sharp and practical distinction, first between wholesaling and retailing, and later between wholesaling and the component parts thereof.

In ascertaining the differences between a wholesale and a retail transaction, five basic criteria are helpful:

1. The quantity of goods bought or sold.
2. The method of operation of the selling concern.
3. The nature of the goods.
4. The use made of the product.
5. The motive of the purchaser.

Quantity—A Criterion in Defining Wholesaling.—The very term *wholesale* or sale in *whole,* rather than in small quantities, suggests a definition of wholesaling based upon the quantity of merchandise sold.[2] Thus it is common to think of the wholesaler as one who buys and sells in large quantities. As a matter of fact, this distinction, which may have been justified generically, is not universally true under modern conditions, since many wholesalers frequently buy and sell in very small quantities. It is the general practice for grocery and drug wholesalers, for example, to sell many items in dozen, half-dozen, or even single-unit lots. Retailers, on the other hand,

[2] "Grosshandel" in the German language is the analogous word used for wholesale trade in contrast with "Einzelhandel" for retail trade.

sometimes sell in substantial quantities. The trend toward hand-to-mouth buying in recent years has caused wholesalers as well as retailers to buy in small quantities. It would thus appear that, while the quantity of goods involved in a transaction may be used as a rough gauge in differentiating between wholesale and retail business, it is by no means the ultimate consideration. Indeed certain legal decisions have specifically pointed out that the quantity factor cannot be taken as a sole determinant of the wholesaling character of a business. As early as November 10, 1915, the United States Circuit Court of Appeals, Second Circuit, ruled in the case of *The Great Atlantic and Pacific Tea Company* v. *The Cream of Wheat Company* that, while a wholesaler usually buys in comparatively large quantities, it is "the character, not of his buying, but of his selling," that "marks him as a wholesaler."[3] The same court stated again on March 13, 1923, in the case of *The Mennen Company* v. *The Federal Trade Commission* that: "Whether a buyer is a wholesaler or not does not depend upon the quantity he buys. It is not the character of his buying but the character of his selling which marks him as a wholesaler."[4] Unfortunately, in neither case does the decision present any further enlightenment as to what really constitutes wholesaling or just how the "character of his selling" is determinative.

That the decisions in the above cases were amply justified on practical grounds, however, is apparent from the fact that many retailers make quantity appeals, i.e., they emphasize low prices based on quantity sales to ultimate consumers. Yet no one would regard such retailers as being engaged in the wholesale business. Among retailers of this type may be mentioned so-called consumers' wholesale supply houses and supermarkets. On the other hand, sales to retailers by manufacturers or by bona fide wholesale firms, when made in small quantities, cannot be regarded as retail transactions in the ordinary sense of the term.

Method of Doing Business—A Second Basis.—The method of operation followed by the selling concern also throws

[3] C. C. A. 227 Fed. 46.
[4] C. C. A. 288 Fed. 774.

much light upon the problem of definition. Wholesalers normally maintain offices and/or warehouses which are not open to the general public. They maintain a sales force which calls upon their clients and secures orders. They extend credit and make collections on a basis which is quite different from that followed by non-wholesale dealers. The customers, who may be retailers, industrial consumers, or other wholesalers, do not make it a practice to call on the wholesaler although this is done occasionally.[5] Whether the distributor handles a specialized or general line of consumers' goods or of industrial goods, he follows much the same marketing technique. There are other distinctions which will be brought out in a later chapter. Suffice it to say at this point that the distinctions between wholesaling and retailing *methods of operation* are very real and easily distinguishable by students of business practice.

Wholesaling Defined by Nature of the Goods.—The three remaining criteria are very closely interrelated. This one is helpful in resolving this discussion since the *nature of the product* gives some indication of its *use*. If it is a commodity which is distinctly industrial, such as steel or iron, and one which rarely or never is purchased by other than industrial users, it is reasonable to classify the dealer in the commodity as a wholesaler, or the transaction as a wholesaling transaction. It is difficult, and frequently impossible, to rely upon the nature of the goods alone as a basis for classification into wholesale or retail transactions because some commodities, such as coal and fuel oil, may be used by industrial and household consumers alike. Thus it becomes necessary to turn to other bases of classification to determine the exact status of a particular dealer in such commodities as coal or oil.

Some students would attempt to solve the problem by setting up a third classification or even additional *marketing* categories. There is, however, little justification for such a procedure in view of actual business practices. A close examination of the activities of middlemen in the industrial market reveals the fact that no separate classification is necessary for them. Most business

[5] Cash-and-carry wholesalers are an exception to this statement but they constitute a very small part of all wholesalers.

men engaged in that field think of themselves as wholesale distributors and a close examination of their business methods indicates that they are right. The authors, therefore, feel that a dichotomous classification of market distribution into wholesale and retail (or non-wholesale) distribution is a natural and adequate basis for the scientific analysis of marketing phenomena. This point of view is further strengthened by the fact that many business concerns cannot possibly be classified on the basis of whether they sell to the industrial market or to the ultimate consumer market. There are, for example, very few wholesalers of electrical goods or of hardware who do not sell large quantities of their goods to industrial users, even though their major business may consist in the handling of goods intended for household consumption.

Use of Commodity—A Fourth Criterion.—The fourth basis, the *use of the product*, is of somewhat greater value in arriving at a definition of wholesale trade than are the first three. When combined with the fifth criterion, the motive *of the purchaser,* it is particularly fruitful. It at once separates buyers into two groups, those who buy for their own use, and those who buy for resale or for business purposes. The former type of transaction is presumed to characterize retail trade, especially if the retailer is defined as one who sells largely or exclusively to the consumer who buys for the satisfaction of his own or his family's personal wants. Purchases for resale or for business use, on the other hand, must therefore fall in the province of wholesaling or at least must be recognized as non-retailing activities.

If all marketing transactions are to be allocated between wholesaling and retailing, and, as noted above, there seems to be no good reason for additional categories, the method of differentiation on the basis of use seems valid and helpful. A weakness arises only when a third category, industrial marketing, is thought of as a separate phase of marketing. Those who adhere to this view may experience difficulty with this method of differentiating between wholesale and retail transactions on the grounds that it fails to distinguish clearly the large segment of

business consisting of sales or purchases for business use as opposed to personal use. In this area are included all sales to manufacturers and other processors of commodities which must undergo changes in form before the finished goods are marketed. Herein are also included sales of machinery and equipment to industrial users, although such items are not resold except indirectly, through the addition to the price of the finished product of an amount to cover depreciation and obsolescence. While there may be some disagreement among theorists as to the propriety of classifying sales for business use as wholesale sales, there is abundant evidence that distributors of such commodities as machinery, equipment, and supplies look upon themselves as wholesale middlemen. Not only did the authors find this to be true from an examination of thousands of schedules submitted to the Census Bureau, but it was corroborated by the N. R. A. Code classifications. Among the approved wholesale codes were those relating to such groups as distributors of machine tools and equipment, construction machinery, and industrial supplies.

Motive of Purchaser—A Fifth Test.—The final criterion is most helpful in arriving at a working definition of a wholesale transaction in the broadest sense of the word. *On this basis a wholesale transaction may be defined as any transaction in which the buyer does not buy for his own use but is actuated by a profit or business motive in making the purchase.* Thus, purchases made by manufacturers, farmers and other producers, or industrial consumers for business purposes are wholesaling transactions. Sales to retailers and to wholesalers fall logically in the same category since retailers and wholesalers buy primarily for the purpose of reselling at a profit. Sales to institutions are predominantly wholesaling transactions since institutions do not normally purchase for the immediate satisfaction of the personal wants of the buyer but for business purposes, the business of society or of social groups. Such transactions are, moreover, quite frequently in large or wholesale lots and are generally handled by business concerns which follow a wholesale rather than a retail pattern of operations.

Conclusion.—From the foregoing discussion it appears that the *motive of the purchaser* is by far the most satisfactory criterion in distinguishing between a wholesale transaction and a retail sale, and, consequently, between wholesale and retail trade. Other factors, however, cannot be entirely disregarded. These other factors or criteria, particularly those of quantity and method of operation of the selling concern, throw additional light on the question which may be essential to a real understanding of the line of cleavage. A decision made by the Federal Trade Commission on October 30, 1935, in the case of L. & C. Mayers Co., Inc., illustrates the use of *method of operation* as a determinant of wholesaling activities. The question was whether the respondent, L. & C. Mayers Co., Inc., was selling jewelry at wholesale as claimed by the company or at retail as charged in the complaint. In the decision, the Commission concluded that "the acts and practices of respondent . . . are to the prejudice of the public and respondent's competitors and constitute unfair methods of competition." The Commission, therefore, issued an order to the company (Docket No. 2038) to "cease and desist from representing itself . . . to be a wholesale jeweler or wholesaler" in so far as certain kinds of sales are concerned.

It is interesting to note in the light of the preceding discussion of criteria for defining wholesaling transactions that the Federal Trade Commission used the following definition:

> A wholesaler of jewelry is one who sells to the trade for resale and seldom, if ever, to the purchasing public, with the exception that sales to industrial concerns, public utilities, banks and other similar organizations, which purchase in quantity lots (i.e., simultaneous sales of more than one of a given item), not for resale, but for use of such organizations, are considered as wholesale transactions.

The Commission added that "it is the character of sales to the trade that makes and distinguishes a wholesaler." This important decision includes an analysis of a number of the criteria developed in the foregoing pages. The *quantity* factor is recognized but is not stressed. The *method of operation* is developed in the elaboration of the term "character of sales," when the Commission points out that the use of catalogs, discounts and

"list prices" are wholesaling devices and are so recognized by the purchasing public. The *nature of the goods* is implied in the recognition of industrial sales as wholesale business. The *use of the product* criterion is recognized in the distinction which the Commission made in sales "not for resale" and in differentiating "industrial concerns, cooperative buying bureaus, state governments, municipal governments and purchasing clubs" from the usual consuming public. The main emphasis of this decision, however, is placed upon the *motive of the purchaser* as the basic criterion for defining wholesale business as opposed to retail trade. The authors, therefore, feel justified in distinguishing between wholesaling and retailing in the following terms:

Wholesaling includes all marketing transactions in which the purchaser is actuated solely by a profit or business motive in making the purchase.

Retailing includes all marketing transactions in which the purchaser is actuated solely by a desire to satisfy his own personal wants or those of his family or friends through the personal use of the commodity or service purchased.

The Three Main Concepts of Wholesaling

The foregoing section of this discussion of the nature of wholesaling has dealt with the first misconception of wholesaling noted at the beginning of this chapter, namely the confusion between wholesaling and retailing. The remaining misapprehensions previously noted lie *within* the field of wholesaling. An examination of the true nature of this important division of marketing should provide a basis for dissipating these erroneous or limited concepts of wholesaling.

As already indicated at the outset of this chapter, various shades of meaning have been injected into the term "wholesaling," because of the special interest of the parties involved and because of the lack of information on the subject. In general, however, three principal concepts are discernible; first, a broad, comprehensive interpretation; second, a decidedly nar-

row view; and third, a conception which falls between the two extremes.

Wholesaling Broadly Conceived.—In its broader aspects the term *wholesaling* includes all activities relating to the purchase or sale of goods at wholesale, in the light of the criteria discussed in the paragraphs immediately preceding. This view recognizes no fundamental distinction between the sale of goods by prime producers, by manufacturers or other processors, by wholesalers, or by any of the functional or non-title-taking middlemen engaged in wholesale trade; nor does it differentiate, save within the field of wholesaling, between sales of goods to retailers, to industrial consumers or to wholesale organizations, so long as the purpose of the customer in buying such goods is not for personal gratification.

In this broad sense, the province of wholesaling embraces:

1. All sales to retailers.
2. All sales to industrial consumers including sales to manufacturers, mining companies, oil well companies, fisheries, railroads, public utilities, farmers, and governmental bodies. In this category are included sales of equipment and supplies to service establishments such as barber shops and beauty parlors; sales of equipment to professional people such as physicians, dentists, and optometrists. Sales of building materials to contractors logically belong in this class of transactions also, usage in some quarters to the contrary notwithstanding.
3. All sales to restaurants, hotels, and institutions.
4. All activities of functional middlemen, such as agents and brokers, who facilitate changes in the ownership of goods that are bought for business purposes.
5. All purchases of farm products and other raw materials for resale on a wholesale basis.

Narrow View of Wholesaling.—In its narrower aspects the term *wholesaling* is confined to the operations of *wholesalers* who sell exclusively to retailers. This, unfortunately, is the

view most widely held by laymen and by many business men who have not given much thought to the problem. This narrow view even restricts the definition of *wholesalers* to those wholesale middlemen who take title to the goods they buy, and who sell them subsequently to bona fide retailers for resale to ultimate consumers. Sometimes, only *service* or *full-function* wholesalers are embraced in the definition, and newer types of wholesalers, even though they take title to the goods they buy, and sell them to retail merchants, are excluded on the theory that they are not "legitimate." This concept invariably excludes the business of functional middlemen as well as the activities of chain-store warehouses, manufacturers' sales branches, and certain other types of wholesaling establishments.

To show that this narrow concept, although held by many practical business men, is highly abstract and unrealistic, it is but necessary to call attention to the fact that few indeed are the wholesalers who sell exclusively to retailers. Practically every bona fide wholesaler of any consequence in certain trades sells quantities of goods to industrial users and to institutional buyers. The same situation obtains, in varying degrees, in practically all lines of business. On the other hand, many of the functional middlemen and others excluded under this narrow conception sell substantial amounts of merchandise to retail merchants.

The Middle View of Wholesaling.—The conception of wholesaling adopted by the Bureau of the Census in the three censuses of distribution taken to date lies between the two extreme views just noted. The census view includes the activities of all places of business operating in a wholesale manner and was a compromise position dictated by technical statistical considerations. It does not include wholesale sales made by manufacturers, except through branches especially maintained for that purpose; nor does the term include wholesale sales made by farmers or by operators of mines, quarries, or oil wells. It was impossible for the Census Bureau to make the term all-inclusive, that is, to use it in the *broadest aspect,* since the censuses were taken on an establishment basis and restricted to specialized

wholesaling establishments. Were the scope of the wholesale census broadened to include such sales, it would be necessary to secure a separate distribution report from every producing establishment and from every farmer and nurseryman, in addition to the report which they submit on production activities to the Census of Manufactures, Census of Mines and Quarries, and Census of Agriculture. This is a desirable objective which will, no doubt, be achieved ultimately. At present, attempts have been made to secure a part of such data from manufacturers only. On the other hand, it would have been equally impracticable for the census to confine the term to service wholesalers or to any other single type of wholesaler, inasmuch as a clear-cut functional division between different types of wholesale organizations does not exist. Much of the wholesale business, even in the sense in which *service* wholesalers operate, is being done by bulk tank stations, by manufacturers' sales branches, and by other types of wholesale establishments.[6] Moreover, the Census Bureau would have had a very inadequate census of distribution had it not included all of the places of business engaged in distribution which it could discover.

Of the three concepts of wholesaling just discussed, the authors are convinced that the first, or broad point of view, is the most significant. The extremely limited viewpoint contributes very little to an understanding of the true nature of wholesaling. The middle viewpoint is a compromise conception, dictated by practical limitations upon the scope of operations of a particular research agency and not by scientific analysis of the field of wholesaling. It deserves attention primarily because it is the basis upon which the largest body of data on wholesaling now available was collected. The student should know, however, that, because of this limited concept, a very large part of the field of wholesaling has not yet been adequately covered by extensive research methods, and should not make the mistake of identifying the area covered by the various censuses of wholesaling with all wholesaling.

[6] For the relative importance of these types of wholesale establishments see Census of American Business: 1933, Wholesale Distribution, Vol. I, p. 5.

Subdivisions of Wholesaling

A full understanding of the nature of wholesaling necessitates not only a sound conception of wholesaling in general but also a thorough grasp on the component parts of the wholesaling structure. It is difficult to comprehend the field of wholesaling because of its intricate character and structure. Wholesaling pervades all lines of trade and in any given trade there are a great many varieties of wholesaling methods and functionaries to be found at the same time. It is therefore necessary to understand first, how wholesaling may be subdivided to bring out distinctive trade or commodity differences, and second, how such agencies may be classified to reveal significant functional and other bases for specialization within a trade or commodity group. Since the pioneer effort to disentangle these ambiguities was made by the first Census of Distribution, the basis for census classification will be utilized in the following discussion. This method will serve the secondary purpose of guiding the student in the correct use of the basic census data in the field of business research.

Wholesaling Subdivisions by Trade or Commodity Groups.—One of the first classifications necessary to an understanding of wholesale trade is that by commodity groups, lines of trade or, as the Census calls it, kinds of business. Three significant bases may be utilized in setting up such classifications:

1. Channel of distribution
2. Source of supply of raw material
3. Utilization of the commodity

One or more of these bases may be used in arriving at a final decision on the proper classification of a particular wholesale business. For example, a dealer in laundry soap is classified in the grocery trade since the great bulk of this kind of soap is normally handled through grocery *distribution channels*. Again, a wholesaler of needles, a product made of steel, is included in the dry goods trade because needles are generally sold by dry

goods concerns as part of their notions department. Other dealers may be classified on the second basis, the *source of supply* of raw material for the commodity or commodities under consideration. A business house dealing in hides and skins or in raw cotton should be classified in the farm products group on this basis. The same would be true of establishments selling, at wholesale, fresh fruits and vegetables. Again, saddlery and harness wholesalers come under the leather trade classification for the same reason. Finally there is the *utilization of the commodity* by ultimate purchasers. On this basis, dealers in fish, meats, and the like are classified in the food products trade, dealers in stoves, in the heating trade classification, and dealers in shoes, even though shoes are made of leather, are placed in the clothing and apparel trade classification. It is often necessary to consider all three of the bases in determining the proper classification of an enterprise by kind of business. Radio dealers, for example, may be classified in the electrical trade if based on the source of supply, in the amusement trade classification if based on the main use of the product, or if classified on the basis of channels through which radios are distributed they may be placed in the furniture field, automotive equipment field, hardware trade, electrical trade, and in several others, since the channels for distribution of such a product are not as clearly defined as are those of most other commodities.[7]

Classification of Wholesaling Agencies.—Classification of wholesaling businesses into trade or commodity groups is only the beginning of the problem. A second step, essential to a full understanding of the wholesaling structure, is the further classification of different types or varieties of wholesaling establishments within each of the important trade groups. It is this secondary classification which brings into relief the fact that *wholesalers,* for example, are but one of many wholesaling institutions, thereby dispelling one of the illusions mentioned at the beginning of this chapter. In a broad sense some of the functions

[7] In presenting the data for the first Census of Distribution for the year 1929, 343 detailed classifications by kind of business were used which, for certain purposes, were telescoped into 88 major classifications and further compressed into 24 kind-of-business groups. For the purposes of the Census of American Business covering the year 1933, data were presented by 25 groups divided into 186 detailed classifications, all of which were kept as nearly comparable with the 1929 groupings as possible. Census of American Business: 1933, Wholesale Distribution, Vol. I, pp. 8-9, U. S. Bureau of the Census, 1935.

of wholesaling are performed by all who sell goods in a wholesale manner, that is, to others than ultimate consumers. In this are included producers, such as farmers and manufacturers, who sell at wholesale, as well as all places of business engaged principally in wholesale trade. In the 1929 Census of Distribution more than 40 different *types* of wholesale establishments were distinguished in the latter category, namely specialized wholesaling organizations.

In order to arrive at a sound and practical classification of the various types of wholesaling institutions it is necessary to follow a similar procedure to that used in classifying by trade groups. For all practical purposes one or more of the following bases may be used in developing such a classification:

1. Functions performed
2. Ownership
3. Agency status

It is possible theoretically to classify wholesale establishments on the basis of the variety of wholesale *marketing functions* which they perform. On this basis, however, wholesale businesses would be dispersed in a continuous, as contrasted with a discrete, series since functions performed vary by almost imperceptible gradations from a single activity such as buying or selling for certain wholesaling agencies to the full gamut of wholesaling functions which are normally performed by the wholesaler of popular conception. This fact would make classification on this basis alone very difficult, if not impossible. In actual practice, it is therefore necessary to distinguish between different types of wholesaling establishments on other than the functional basis although functions are not entirely excluded from consideration and are actually helpful in establishing certain categories. The *ownership basis* is helpful in classifying such establishments as the wholesale warehouses operated by retailing chain systems. Here the integrated nature of the entire business structure makes the ownership basis of classification essential. For the same reason bulk tank stations in the petroleum trade and manufacturers' wholesale branch houses must be classified on the basis of ownership.

The third basis for classification, namely the *agency status* of the wholesale place of business, is often helpful in arriving at a practical segregation of such wholesale establishments as agents and brokers who do not normally take actual title to the merchandise which they handle or in which they deal but rather operate on a commission basis. Such types are in sharp contrast with wholesaling establishments which purchase outright all of the goods in which they trade.[8]

Functional differentiation is apparent in such categories as wholesale merchants, cash-and-carry wholesalers, and wagon distributors. The ownership basis appears in the separate classifications of chain store warehouses, bulk tank stations, and manufacturers' sales branches. Examples of the third basis of classification appear in such types as manufacturers' agents, selling agents, brokers, export agents, and import agents. Wholesale organizations are frequently also classified on the basis of territory covered in the domestic market, into local, sectional, and national; also according to whether they are engaged in domestic or foreign trade. These latter bases for classification are, however, subsidiary to those previously outlined.

From the very nature of *wholesaling,* as discussed in preceding paragraphs, it is apparent that *wholesalers,* in the narrow sense of the term, are not the only type of institution engaged in wholesaling. Brokers, commission merchants, and other non-title-taking middlemen engage in wholesaling, perform wholesaling functions, as truly as the regular service wholesaler does. Similarly, business establishments such as mill supply houses, steel warehouses, hotel supply houses, and dental supply firms who distribute goods to industrial, commercial, and institutional enterprises, are a part of our wholesaling structure. The same reasoning applies to the activities of manufacturers who sell through branch houses or otherwise, either to wholesalers or to retailers and industrial concerns. Furthermore, the wholesaling picture would be incomplete if confined only to domestic trade. A substantial volume of foreign trade is also carried on

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[8] The Census Bureau utilized all three bases of classification for the 1929 Census of Distribution, for the 1933 Census of American Business, and for the 1935 Census of Business.

with other nations. For that reason one must include many of the organizations engaged in exporting and importing, directly or indirectly. Finally, there are a number of wholesale establishments operated by retail institutions such as chain store warehouses and supply depots which also constitute a part of the wholesaling mechanism.

CHAPTER 3

THE HISTORY OF WHOLESALING

To trace the origin and development of wholesaling through the ages is analogous to tracing the beginnings and progress of civilization. Wholesale trade is as old as commerce and harks back to the dawn of civilized life. Many of the practices of modern wholesale houses, as of many other economic institutions of modern times, are deeply rooted in the past. Consequently, a knowledge of the past is essential to a thorough understanding of the present-day problems of wholesale organizations.

The Genesis of Wholesaling.—In its earliest form wholesale trade was largely associated with caravans. The exchange of commodities, however, necessitated the establishment of market places where goods were assembled and distributed and actual transactions were made.[1] The earliest market places were no doubt at the beginning, the end, or the intersections of trade routes. Over these caravan routes, which were characterized by poor roads, deserts, and rugged mountain passes, poured the commerce of the centuries. Beasts of burden or human portage afforded the usual means of transportation; hence trading was confined to articles of small bulk and relatively high value, such as precious stones, gold, silver, copper, tin, amber, spices, gums, incense, fine fabrics, dyes, wool, silk, skins, and furs; or to certain necessities of life, such as salt; or to other goods which were unequally distributed between the different lands such as honey, and woods of cedar, fir, and ebony. Wholesale traffic in human beings, slavery, made up too

[1] One of the earliest records of the establishment of organized markets imputes to Shen Nung, a Chinese emperor of the third millenium, B. C., credit for instituting "the practice of holding markets for the exchange of commodities." H. H. Gowen, "An Outline History of China," p. 26, Boston, Sherman, French & Co., 1917.

large a share of early commerce. One of the early references to such traffic may be found in the Bible in Genesis which recounts the sale of Joseph: "and they (Joseph's brothers) lifted up their eyes and looked, and behold, a caravan of Ishmaelites came from Gilead, with their camels bearing spicery and balm and ladanum, going to carry it down to Egypt. . . . And there passed by Midianites, merchantmen; and they drew and lifted up Joseph out of the pit, and sold Joseph to the Ishmaelites for twenty shekels of silver." [2] The sale was apparently made by others before Joseph's brothers had an opportunity to pull him out of the pit in order to sell him themselves, indicating rather extensive travel of merchants via that caravan route.

As boats became stancher and mariners hardier, wholesale trade entered the fluvial or river phase. The Tigris and Euphrates rivers played important parts in the wholesale trade of the ancients, as did the rivers of India and China in the Far East and the Nile in Africa. This type of traffic is interestingly described by Herodotus who said that boats for shipment of goods on the Tigris and Euphrates were made of wood of willow covered with skins. They were loaded with merchandise in Armenia and floated down the river with the current. On reaching their destination in Babylon, the merchandise was discharged, the boats taken apart, the wood sold, and the skins loaded on the backs of animals to be taken back for further use in building boats.[3]

The transition from river traffic to oceanic shipments was a natural development. Ocean transportation was utilized at least as early as the days of Solomon in the Near East, while the use of the junk in the Far East also extended back to very early times. In order to build the Temple, King Solomon requested Hiram, the King of Tyre, to sell him the necessary timber which was not available in Palestine. In reply, King Hiram sent the following message: "I have heard that which thou has sent unto me; I will do all thy desire concerning timber of cedar, and concerning timber of cypress. My servants shall bring them down from Lebanon unto the sea; and I will make

[2] The Holy Scriptures, *Genesis*, Ch. 37.
[3] Herodotus, Bk. 1, Ch. 194.

them into rafts to go by sea unto the place thou shalt appoint me." [4]

The so-called "Cappadocian Tablets" which formed the business archives of a colony of merchants and other records, discovered through archaeological research in the Near East and in Egypt, give evidence of considerable wholesale trading activity in all leading countries of the ancient world, particularly in Egypt, Babylonia, and Phoenicia. Because of her strategic geographic position, Babylon occupied a prominent position in the commerce of its day. To it were brought silver from Spain, gold from Central Asia, silk from China, linen from Egypt, wine and oil from Armenia, precious stones and spices from India, and salt and aromatics from Arabia. Trade was fairly well developed and even specialized. A different term was used for wholesaler than that used for retailer; the former referred to the exporter and importer who in turn sold to the retailer.[5]

The records indicate that an even greater development in the field of wholesaling occurred in Phoenicia, which enjoyed trading advantages arising from its strategic location between the great empires along the Nile and the Tigris-Euphrates river valleys. In its day, the city of Tyre was the commercial mart of the world, and merchant princes constituted the aristocracy of the kingdom. According to one authority, the caravans of the Phoenicians as well as their ships carried goods which were of relatively little value in one region to distant places where they were more highly prized, thus performing one of the major functions of wholesaling, the creation of place utility.

These early wholesaling transactions must have been effected by the technique of barter since we have no record of the use of money until 330 B. C. when the first Phoenician gold coins used in the Near East appeared.[6] The development and use of money no doubt contributed to the greater expansion of the wholesale traffic of these pioneer traders. Thus, it may truly be said that the Phoenicians were a nation of wholesalers.

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[4] The Holy Scriptures, *First Kings*, Ch. 5.

[5] C. A. Herrick, "History of Commerce and Industry," pp. 31-32, New York, The MacMillan Co., 1917.

[6] G. R. Collins, "Outline of Business," p. 50, Pocket Library of the World's Essential Knowledge, New York, Funk & Wagnalls Co., 1929.

Wholesaling in Greece and Rome.—The era of Greek supremacy saw an even greater development of wholesaling. More important to the student of wholesaling is the fact that the Greeks recognized wholesaling and wholesalers as distinct branches of commerce. Despite the prominence of wholesaling in Egypt, Babylon, Phoenicia, and the Far East there is little or no evidence of its recognition as a separate business institution in the thinking and language of the people before the time of the Greeks. While much of the earlier wholesaling had been largely exporting and importing, wholesaling in Greece included a substantial volume of internal trade due to the differentiation of production in the various parts of the country. Moreover, wholesaling was sharply differentiated from retailing, although to a considerable extent the two were combined in actual business. The term "emporia" was used to designate wholesalers while retailers were known as "kapéloi." [7] The *emporos* was the merchant who imported foreign goods and sold them "by wholesale." He also owned ships as a rule and sold his wares either to other wholesalers, to smaller traders, or to broker-like agents. The term *kapêlos*, on the other hand, normally referred to the retail dealer, the translation of the term being "a retail dealer, petty tradesman, huckster, a tavern keeper, a cheat, rogue, knave," which indicates the lack of esteem for the retail trade in ancient Greece.

The fact that a distinction between the two terms was in current use, interestingly enough, appears from a discussion between Hippocrates and Socrates, which is translated as follows:

"Is not a sophist, then, Hipprocates, a kind of merchant or retailer of commodities by which the soul is nourished? To me, at least, he appears to be so."

"But by what is the soul nourished, Socrates?"

"By learning," I replied. "But we must take care, my friend, that the sophist does not deceive us by praising what he sells, as those others do with respect to nutriment for the body, the merchant and the retailer. . . . For when one has purchased meat and drink from a retailer or merchant one may take them away in different vessels . . ." [8]

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[7] Plato's Protagoras, p. 313.

[8] The Works of Plato—A New and Literal Version, Vol. I, tr. by Henry Carey, London. Bohn's Classical Library, Plato's Protagoras, p. 242. For a literary translation of these passages, see Plato's Protagoras, tr. by James A. Towle, p. 41, Boston, Ginn & Co., 1889. In such literary translations the term *emporos* is usually translated as wholesaler.

Further evidence of specialized wholesaling activities may be gleaned from the following quotation from Becker: "The sale of goods was variously effected. The wholesale dealer, emporos, seems usually to have sold by sample." These samples were either displayed at special market places, not unlike our modern exchanges, or were carried about from place to place.[9] Wholesaling activities not only included traffic in the domestic products of Greece but with the expansion of the empire were also extended to include overseas trade. Grecian wholesalers sent their ships to ply between the Greek colonies and the homeland. While retail trade was generally despised by the Athenians and relegated largely to slaves, wholesale trade both internal and external was respected and was conducted mainly by Greek citizens. The extent of wholesale trade development in Athens may be gleaned from the following quotation:

> Athens had her academies and Lyceums, but she also had her Rotary Clubs; at the foot of the Acropolis, crowned with the temples of the gods, lay the noisy, crowded, ill-smelling retail market; not far away were the thronging wholesale districts and dockyards of the Piraeus, and the grim industrial district round about Laurium, where the air was polluted by the noisome fumes from innumerable smelters.[10]

Roman history reveals that the successors to Greek world power were in general adverse to trade. Roman civilization was essentially agrarian rather than commercial. However, large dealings, i.e., on a wholesale basis, advanced in public esteem as the higher classes became more dependent upon them and even participated in them. Since, however, the more successful wholesalers usually first served apprenticeships in the retail trade, the esteem for such wholesalers was restrained and many such Roman wholesalers dealing in wine (negotiantes vinarii), oil (olearii), lumber (materiarii), and ceramic products (vascularii) bore a Greek cognomen.[11]

The wholesale trade of Rome was largely in imports of food supplies from the provinces and colonies. The nearest approach

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[9] Becker's "Charicles: or Illustrations of the Private Life of the Ancient Greeks," tr. by Rev. F. Metcalfe, fifth edition, pp. 277-292, London, Longmans, Green & Co., 1880.

[10] G M. Calhoun, "The Ancient Greeks and the Evolution of the Standards of Business," pp. 13-16, Boston, Houghton Mifflin Co.; 1926.

[11] Tenney Frank, "An Economic History of Rome," pp. 321-322, Baltimore, Johns Hopkins Press, second edition, 1927.

to the present-day wholesaler in the days of Roman domination was the "negateatore" who was a middleman dealing both in merchandise and money. He was usually an independent Greek ship owner who tramped from port to port, buying and selling whatever cargo promised the greatest profit. Some wholesale warehouses (*horrea*) were located at strategic points for the receipt of goods from foreign lands and for distribution to the retail dealers at home. According to a description left by Benjamin de Tudela, a Spanish rabbi, some of these *horrea* were immense structures. He relates that one of them had 360 windows and a circumference of three miles, making it more than twice the size of the Grand Central station in New York.[12] While some of these large warehouses were owned by the government and leased to importers and wholesale dealers, others were erected by rich knights and senators.

Practically every harbor had a wholesale market where buyer and seller might meet. At these market places, "the incoming merchant unloaded whatever wares he thought he might sell, and displayed them in the market while his ship stood at anchor . . . To the same market, came, of course, the small shop keepers of the town to buy for their retail trade." [13] Traces may be found, also, of functional middlemen of the broker or agent type, who were stationed in Rome as representatives of exporters in eastern cities. To these agents goods were frequently consigned; in such cases they acted like present-day commission merchants.[14]

Wholesaling During the Middle Ages

With the decline of Rome the wholesaler seems to have suffered an eclipse for some centuries, through integration with retailing. The Middle Ages, which according to historians began roughly with the Fall of the Roman Empire in A.D. 476 and ended about A.D. 1500, was characterized by a system of social organization known as feudalism with the economic and

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[12] C. G. Herbermann, "Business Life in Ancient Rome," pp. 33-34, New York, Harper & Bros., 1880.

[13] Tenney Frank, "An Economic History of Rome," p. 312.

[14] Puteolan inscriptions throw light on this point.

political life centered about the lord of a manor; by a philosophy of scholasticism; and during the last two centuries of the period by an economic system of guilds. Almost to the thirteenth century a very simple independent domestic economy existed in Europe. Agriculture was held in high esteem, manufacture of the handicraft type was tolerated, but trade was looked upon with disfavor except in a few of the Mediterranean cities. As compared with the economic life of the ancient world and of the Greeks and Romans, European culture at this time was indeed primitive.

Wholesale Trade Routes in Medieval Times.—During the early Middle Ages wholesale trade was confined largely to commerce with the East of which traffic in spices and luxury goods predominated. The ancient trade routes continued to be followed from the Far East to the Near East and a slender trickle of trade found its way into Europe. For many centuries the trade from the Orient (China and India) followed three main routes. Spices, cinnamon, ginger, myrrh, and cinnabar were carried by water from India to the head of the Persian Gulf, thence up the Euphrates and across Northern Arabia and Syria to Thapsacus and thence via Palmyra or Damascus to Mazaca and on to Ephesus, one of the chief commercial towns of the Levant. A second route from India was by sea to Aden, thence up the Red Sea and by caravan to the Nile River and down to Cairo. This passage usually consumed thirteen days. From Cairo the goods were carried to Alexandria by means of a canal, a distance of two hundred miles. A third route of early prominence crossed the Persian Gulf from India, thence up the Tigris, and overland to Trebizond on the Black Sea. This course passed through Bagdad which became wealthy as the result. Ephesus, Alleppo, and Alexandria were prominent ports from which European traders picked up their goods.

During this era the Italian cities of Genoa, Pisa, and Venice waxed rich and powerful on a foundation of foreign commerce. Shakespeare's play, *The Merchant of Venice,* reveals the importance of the merchant in the social and economic life of

the times. Venice was one of the earliest of the European cities to build up a great trade with the East. Established about the middle of the fifth century by refugees from the northern Italian cities which Attilla had ravaged, and at first little more than a fishing village on some sandy islets of the Adriatic, by A.D. 697 she had become wealthy and had a well-established trade with the East. Genoa and Pisa also developed into great trading centers. The traders from these cities collected the products of Europe such as furs, lumber, and fish which came down the rivers and through the passes from the north and carried them to the trading ports of Asia Minor and Africa. Here they picked up the rich cargoes of luxury goods and spices which were in great demand in Europe. During the crusading period an added impetus was given to trade by the requirements of crusaders for transportation to the Holy Land. Merchants constructed larger ships to accommodate them and consequently brought back increasingly larger cargoes. Often they made direct arrangements with caravan traders and picked up their freight at agreed points outside the regular trading cities.[15]

Apart from the development of a direct sea passage from the Italian cities to Bruges in the north, the trade routes just mentioned were the only routes used by European traders of which we have knowledge until the fifteenth century. Then the new interest in geography and navigation began to make itself felt. The Portuguese under the stimulus of Henry the Navigator had been venturing farther and farther from their own shores until they had finally reached the Cape of Good Hope. Following this discovery an expedition was fitted out under the leadership of Vasco de Gama with the main purpose of locating the Spice Islands. Included in the cargoes was a small amount of each sort of spice to be shown as a sample of what they sought. After various interesting and exciting episodes, Vasco de Gama arrived at Calicut in 1497. This was one of the chief mercantile cities of India and was the capital of Malabar, the center of the spice district.[16] The Mohammedan spice merchants were

[15] James Harvey Robinson, "History of Western Europe," p. 243, Boston, Ginn & Co., 1925.

[16] W. S. Lindsay, "History of Merchant Shipping and Ancient Commerce," Vol. II, pp. 4-13, London, S. Low, Marston, Low and Searle, 1874-76.

suspicious of the Portuguese but were powerless to interfere with their trade which grew and prospered. By 1515 Portugal was the greatest maritime power in the world. The Portuguese became keen traders. They would pick up goods on the east coast of Africa as they went along trading them for spices and other goods in Malabar and Ceylon. Lisbon became a great trading center where cargoes of spice arrived regularly.[17]

The Portuguese control continued for nearly a century before they were supplanted by the Dutch. Portugal, due to the influence of Spain, had closed her ports to the Dutch traders, shutting off their spice supply, and, as many of the Dutch sailors had served as pilots on Portuguese ships in the East, the Dutch saw no reason why they should not themselves start trading directly with the Spice Island. In 1601 the Dutch captured Malacca from the Portuguese and established Batavia as the capital of the Spice Islands. They destroyed Malacca in 1640 which left them in complete control of the spice trade. They have maintained a monopoly on the spice trade to a large extent ever since.

Status of Oriental Trade.—The exact status of wholesale trade in the Orient during the medieval era is even less well known than that of the West. There is evidence, however, in the accounts of travelers like Marco Polo that commerce was highly developed. Indeed, the early European voyagers who reached the Orient apparently found trading mechanisms established. In the sixteenth century there is record of a high development of commerce in India:

> Kanishka, the Indo-Scythian ruler of India, took such a great personal interest in the trade between China and the West that he was known as "the illustrious middleman." He took charge of the silk and the pig iron which came by the old trade routes through Asia, and saw to their transshipment for the markets of the Mediterranean. His coins, it is said, have been found as far west as Wales.[18]

European Trade.—In Europe no distinction is to be found between wholesale and retail trade until late in the Middle Ages,

[17] W. H. Coates, "The Old 'Country Trade' of the East Indies," pp. 14-17, London, Imray, Laurie, Norie & Wilson, Ltd., 1911.

[18] Herbert H. Gowen, "Asia, A Short History," p. 43, Boston, Little, Brown & Co., 1936.

although merchant trading was undoubtedly very largely wholesale in character. Most dealers sold both "en gros" (at wholesale) and "en detail" (at retail), as the opportunity presented itself.[19] When the distinction was finally made, it first applied to sellers of foodstuffs, the term grocer applying to a dealer who sold pepper and spices "en gros" and that of "spicer" referring to the retail dealer in such commodities. That the wholesaler was finally recognized as a separate institution is evident from the following quotation from a decree issued by England early in the fourteenth century, sometimes called the Magna Charta of Commerce:

> The merchants of Germany, France, Spain . . . and all other foreign parts, who shall come to traffic in England, shall and may safely come with their merchandise into all cities, towns and ports, and sell the same by wholesale only, as well to natives as to foreigners, except for groseries and haberdasheries which could also be sold by retail.[20]

Internal trade at wholesale was relatively small in volume during the Middle Ages and more or less insignificant. In those days most wholesaling was international in character; consequently wholesaling was largely synonymous with importing and exporting. Much of the trade both wholesale and retail was transacted at fairs, particularly during the thirteenth, fourteenth, and fifteenth centuries. To these points gravitated large numbers of merchants, manufacturers, and artisans from foreign lands and from distant communities for the purpose of buying and selling goods of various descriptions, as well as for amusement. As has been pointed out previously, the fairs such as those of Nijnii-Novgorod, and Kiev (Russia), Champagne and Lyons (France), Sinigaglia (Italy), and Kiachta (Mongolia) became established institutions and were known to traders everywhere. A considerable amount of business was transacted at these fairs, which were held at intervals of from 3 to 12 months, many of them lasting a month. Due to lack of communication facilities, they afforded the only practical way of bringing together a large number of traders. Located at inland

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[10] J. W. Thompson, "Economic and Social History of Europe in the Later Middle Ages (1300-1530)," pp. 451-452, New York, The Century Co., 1931.

[20] H. G. Selfridge, "The Romance of Commerce," p. 176, London, John Lane Co., 1918.

points for the most part, they supplemented the seaports as communication centers in addition to performing their primary function of merchandise distribution.[21]

At these fairs the merchant was permitted to sell both at retail and wholesale, depending somewhat on the nature of the product. The wholesaler was a large-scale assembler who sold his goods for further processing, to retailers, and sometimes also directly to consumers. During the Middle Ages and through the handicraft stage of economic development, agricultural production was limited, manufacturing highly localized and on a small scale, and retailing was confined to markets held on certain days, in addition to the fairs.

In domestic trade direct contact between producer and retailer was the rule. The limited amount of wholesaling in inland trade was carried on by itinerant or traveling merchants with pack-horse trains and by some established wholesale houses, through fairs held at intervals of from three to twelve months, and occasionally through auctions and exchanges, such as the candle auction on the Antwerp exchange.[22]

The Guild as a Factor in Wholesaling.—It was about this time that the guild system became all-powerful. Whether one could engage only in wholesale trade, sell also at retail, or trade at all with foreigners in foreign markets, depended upon the trade superstructure of the guild. Most famous among these superstructures was the Hanseatic League which supervised the activities of German merchants who operated as international wholesalers selling at wholesale and sometimes also at retail at the various fairs and in other markets. The trade of the Baltic and North Sea, and of northern and central Europe generally, was thus largely in the control of the Hanseatic League during this era. The League was made up of a group of Free Cities which banded together to protect trade from the many difficulties of the period. It maintained great warehouses for the concentration and storage of the products of their respective districts pending redistribution by way of the Rhine or Danube,

[21] For a good description of fairs, see S. Colwell, "The Ways and Means of Payment," Chs. 7, 8, and 12, Philadelphia, J. B. Lippincott & Co., 1859; and C. Walford, "Fairs, Past and Present," London, Elliott Stock, 1833.

[22] T. N. Beckman, "Wholesaling," *Encyclopaedia of the Social Sciences,* Vol. XV, p. 412, New York, The Macmillan Co., 1935.

through the Alpine passes and down the Rhone or Po to the cities of the South. The main articles of commerce were furs, woods, timber, fish, cloth, and leather goods from the North which were exchanged for the spices, silks, and wines of the Orient. These oriental goods were distributed in turn by the Hansa organization throughout northern Europe.[23]

Throughout this era the merchant, i.e., wholesaler, performed practically all of the marketing functions. The goods were transported by the wholesaler who accompanied them himself or sent a partner, who took charge of both buying and selling activities. In addition to merchant wholesalers, another wholesale middleman of the broker type flourished during those times. A commentator upon the economic and social history of Europe in the later Middle Ages points out that, "The merchants of Bruges, in a word, were nothing but intermediaries between the merchants of the various nations of Europe. They were the brokers who, in Bruges, played the important social and economic rôle elsewhere played by mere shipowners. The Brugeois were the great middlemen of Europe." [24] The experience of Bruges, incidentally, illustrates the limitations of *arbitrary* restrictions in attempting to force uneconomic trading channels. While for a long time Bruges was a meeting place for merchants from all over the world, its trade dwindled when its rich and autocratic burghers passed a rule that all exchange between foreign merchants had to be made through local brokers. This lesson from history should be heeded by modern legislators who seek arbitrarily to interfere with distribution systems which have been generated by economic forces.

The supremacy of the guild system in the Middle Ages saw the development of extensive trading facilities, which were, however, frequently designed as a means for collection of taxes and fees and for the supervision of transactions. For example, when a German merchant reached Venice, he was immediately taken to a special hotel provided for traders. Here his wares were invoiced for taxation purposes and an inspector

[23] Clive Day, "A History of Commerce," pp. 38, 79-83, New York, Longmans, Green & Co., 1907.

[24] J. W. Thompson, "Economic and Social History of Europe in the Later Middle Ages, 1300-1530," p. 333.

was appointed to accompany him. The inspector acted as interpreter and broker, in addition to seeing that none of the Venetian trading regulations were broken. The hotel served both as office and warehouse, where much of the trade was transacted. Fairs, as already indicated, had early developed as places for trading, while the guild halls or trading posts maintained by the various guilds constituted still a third place. The trading posts of the Hanseatic League, known as factories, were among the most famous of these latter, including the widely known "Steelyard" with its branches in England. In Bruges, the Hanseatic "factory" housed over three hundred traders, serving as office and warehouse. A fourth facility maintained for trading was the central exchange. In Bruges it was called the "Bourse," after a rich burgher who lived adjacent to it.[25]

Wholesaling and Mercantilism

Mercantilism may be said to comprise the economic views which prevailed in Europe from the sixteenth to the latter part of the eighteenth century. It was essentially the economic counterpart of the political philosophy of nationalism which had its inception at about the same time. Based upon the false foundation that money and wealth were identical it sought to encourage the importation of gold and silver through restrictive legislation. There was a sound political reason for this attitude in the necessity for war chests to hire soldiers to maintain the integrity of the newly formed nations from aggression. Economically, however, mercantilistic legislation proved to be suicidal to national progress and practically impossible to enforce. Even more short-sighted than the monetary and foreign trade policies were the restrictive measures imposed upon all trade and

[25] For interesting accounts as to the type of commerce prevailing during the Middle Ages, the fortunes amassed by such great merchant families as the Medicis and the Fuggers, and for other items of pertinent information concerning the wholesale business conducted during this time, see: H. G. Selfridge, "The Romance of Commerce," Chs. 3 to 17 inclusive, London, John Lane Co., 1918; H. Pirrenne, "Medieval Cities," tr. from the French by F. D. Halsey, Chs. 3 to 8, Princeton, Princeton University Press, 1925; H. Zimmern, "The Hansa Towns," New York, G. P. Putnam's Sons, 1893; W. J. Ashley, "The Beginnings of Town Life in the Middle Ages," *Quarterly Journal of Economics*, Vol. 10, 1896; G. B. Adams, "Civilization During the Middle Ages," New York, C. Scribner's Sons, 1894; and A. Schulte, "Geschichte des Mittelalterlichen Handels und Verkehrs Zwischen Westdeutschland und Italien," Leipzig, Dunker & Humboldt, 1900.

industry. The French government went so far as to specify the minutest details of the conduct of business and ruthlessly enforced the laws to the letter. In England, likewise, the system aimed to protect and encourage home industries; to accumulate and retain large stocks of money; to encourage shipping as a basis for an efficient navy, and to increase revenue; and to protect native grain growers in order to make the country self-sufficient.

Trade could not be restrained, however, even by the strait-jacket of mercantilism. In 1700, according to a trade magazine, the "British Merchant," the home inland trade of England approximated £42,000,000, and the foreign trade amounted to about £7,000,000.[26] By 1763 the volume of foreign trade had increased to £28,000,000.[27] No data are available on the increase in domestic trade but that it was substantial there can be no doubt. Likewise, there is little doubt that an extensive wholesale trade was developing although there are no statistics to bear it out. Abundant evidence, however, is to be found in the writings of Adam Smith, whose description of wholesaling in 1776 is discussed more fully in a later chapter.

The importance of the wholesale middleman is further indicated by the prevailing system of production. With the exception of certain mineral and metal industries, production throughout the greater part of this period was on *the domestic basis.* This was known as the "putting out" system in which capitalist middlemen in the textile industry, for example, provided the raw materials and paid the master weavers for processing them in their own households. Under this system the wholesaler organized production and assumed control of the selling function, and his importance grew apace with the expansion of demand for industrial products.

Wholesaling Institutions.—Exchanges were one of the earlier types of wholesale institutions which were developed further during the mercantilistic era. The first exchange

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[26] A. Toynbee, "Lectures on the Industrial Revolution of the Eighteenth Century in England," p. 33, London, Longman's Green and Co., Ltd., 1928.

[27] A. Anderson, "An Historical and Chronological Deduction of the Origin of Commerce from the Earliest Accounts," Vol. IV, pp. 30-43, London, printed at the Logographic Press, 1787.

was established in Antwerp in the sixteenth century. Here men gathered daily for the exchange of goods without the actual display of commodities; spices; pepper particularly, being among the principal commodities traded in at the time. On the Royal Exchange of London goods were offered for sale by the method of candle auction, an arrangement whereby a parcel of goods was sold to the highest bidder before an inch of candle burned away. Sales of single parcels of silk, indigo, or spice sometimes amounted to a half-million dollars in value. A further insight into the importance and functioning of the exchanges may be had from some of the provisions of the law passed by Parliament in 1697 for the regulation of brokers dealing on the exchange. The law permitted brokers to operate in London "for the making of bargains between merchants and traders for merchandise and bills of exchange." Since, however, some of the brokers indulged in unfair practices, the law required that brokers obtain a license from the lord mayor and aldermen. Furthermore, the number of brokers operating on the exchange was limited to 100, their names being written on the Royal Exchange, and a penalty of £200 being imposed upon a broker who "dealt for himself," i.e., bought on his own account, any merchandise, stocks, or other items.[28]

Another interesting glimpse into the trading of the day may be obtained from the description of dealings in corn by Daniel Defoe, author of Robinson Crusoe and many other works. The system he describes is one of buying and selling corn by sample only, and appears to be the prototype of the regular corn exchange later developed. A sample was brought by the farmer to the market town where he stood at a place "where such business was done." The corn factors, mealmen, bakers, and millers came along, looked at the sample, asked the price, bid, and then one of them bought the entire amount. The two parties then went to a nearby inn and adjusted the bargain, as to manner of delivery, time, and method of payment. The corn was then hauled into the nearest town where it was put on boats and sent to London. In commenting on this type of trading, Defoe says:

[28] *Ibid.*, Vol. II, p. 630.

> Now although this is openly done, nor do I see it can be practicable to prevent it, yet it must be acknowledged that it is really a clandestine trade, utterly unlawful, and may sometimes be very inconvenient; as it opens a door to the fatal and forbidden trade of ingrossing, regrating, forestalling the markets, and the like.[29]

It is interesting to note that sale by sample was looked upon by Defoe as a new way, despite the fact that such practice, as already indicated earlier in this chapter, was widely used in Greece centuries before.

A second wholesale institution associated with the mercantile era is the auction which was a general method of wholesale trading on exchanges and in other wholesale markets though at times separate establishments were maintained. In addition to references to sales by auction on the Antwerp Exchange during the sixteenth century and on the Royal Exchange in London, there are historical references to the use of the auction by the East India Tea Company for the disposal of imported goods. What is said to be the first advertisement in newspapers appeared in a Dutch paper, dated November, 1626, giving notice of a sale by auction of articles taken out of prizes, i.e., vessels seized by privateers.[30] Among the articles offered for sale were sugar, ivory, pepper, tobacco, and logwood.

A third and very important institution which was used for both wholesale and retail trading consisted in markets and market halls. These markets were held at frequent intervals, many of them weekly. They generally specialized in the handling of products of local manufacture or production, so that certain towns became famous for specific products, like Norwich for fine crepes and Devon for dyeing and finishing serges. At these markets, the small-scale artisans would gather with their merchandise which would be disposed of to factors, merchants, and other buyers within an hour after the opening bell struck and the market began.[31] In 1720 there were 758 market towns in England and Wales, and by 1741 the number had increased to 786. Some of these markets dealt only on a wholesale basis,

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[29] Daniel Defoe, "The Complete English Tradesman," Vol. II, p. 182, London, 1727.

[30] H. Sampson, "A History of Advertising from the Earliest Times," p. 64, London, Chatto and Windus, 1874.

[31] For a good description of such a market, see L. W. Moffit, "England on the Eve of the Industrial Revolution," pp. 216-218, London, P. S. King & Son, 1925.

but most of them sold both at wholesale and at retail. The great scope of these markets is evident from the fact that in London alone there were at the time forty markets, including the famous Smithfield cattle market, ten markets for the wholesale distribution of vegetables, a fruit market, four meal markets, six hay markets, and leather, coal, and cloth markets.[32]

While fairs continued to be an important marketing institution throughout the major part of the mercantilistic era, during the eighteenth century their importance declined rapidly, due principally to the development of the postal system, canals, and better roads. Fairs generally attracted the most important wholesale merchants not only from distant communities but also from foreign lands. Their importance and the nature of their operations can be best understood from a description given by Defoe of the great Stourbridge fair:

> This place being peculiar to the wholesale dealer in the woolen manufacture the booths and tents are of a vast extent, have different apartments, and the quantities of goods they bring are so great that the insides of them look like so many Blackwell Halls, (a large cloth hall in London) and are vast warehouses piled up with goods to the top. In this Duddery, as I have been informed, have been sold 100,000 Pounds worth of woolen manufactures in less than a week's time; besides the prodigious trade carried on here by wholesale men from London and all parts of England who transact their business wholly in their pocket-books; and meeting their chapmen from all parts, make up their accounts, receive money, chiefly in bills, and take orders. These they say, exceed by far the sale of goods actually brought to the fair and delivered in kind; it being frequent for the London wholesalemen to carry back orders from the dealers for 10,000 Pounds worth of goods a man and some much more . . . This especially respects those people who deal in heavy goods as wholesale grocers, salters, braziers, iron merchants, wine merchants and the like; but does not exclude the dealer in woolen manufactures. . . .[33]

Types of Wholesale Middlemen.—During the mercantilistic era trading interests began to displace rapidly the old feudal aristocracy. This period gave rise to the "merchant princes," and wholesale middlemen multiplied in number and variety. Partnerships and associations of merchants had developed dur-

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[32] *Ibid.*, p. 233.

[33] Daniel Defoe, "Tour Through the Whole Island of Great Britain," Vol. I, pp. 91-96, London, J. & F. Rivington, 1769, quoted in L. W. Moffit, p. 224.

ing the Middle Ages, but the great trading companies which were the predecessor of the modern corporation did not make much progress until mercantilism was substituted for the manorial system. Examples of these large trading companies were the East India Company, founded in 1601, the Dutch West India Company, founded in 1621, The Hudson's Bay Company chartered in 1670, and the Royal African Company. The companies were either regulated or joint stock.

Another type of wholesale middleman common to the times was the traveling merchant, who visited small shopkeepers with a stock of goods carried through the country by pack-horse trains. Such merchants were often called "Manchester Men," "Chapmen," and when they dealt in farm and dairy produce they were called "Badgers." Often they were the link between the fairs and the industrial centers, buying at fairs or markets in one district and selling in another. Their itinerary and means of travel were sometimes carefully defined in the license granted them by the local authorities.[34] Much of the cloth in England was sold in this fashion to the retail trade.

As the roads improved still another variation appeared in the form of traveling merchants who began to cover their territory on horseback, carrying with them only samples of the merchandise. Orders were taken and later delivered by wagon. This new method of soliciting business by a "rider out" became very popular and made big inroads on the business of the established London wholesalers who had been accustomed to having the country draper come into the city to buy his cloth. Thus, the London wholesalers were forced to send riders (probable prototype of the modern traveling salesman) at great expense to promote their business in the country.

As inferred in the previous paragraph, wholesale merchants with established places of business occupied an important position in the large market centers. Writing in 1727, Daniel Defoe frequently mentioned London wholesalers. Apparently wholesalers were regarded primarily as warehousekeepers, although they performed certain other essential functions. The function

[34] J. Parkes, "Travel in England in the Seventeenth Century," p. 271, Oxford University Press, London, 1925.

of the regular wholesaler in the cloth trade is indicated by the following quotation:

> Nor do the shopkeepers go or send to all the several countries where those goods are made; that is to say, to this part for the cloth, or to that for the lining; to another for the buttons, and to another for the thread; but they again correspond with the wholesale dealers in London, where there are particular shops and warehouses for all these; and they not only furnish the country shopkeepers, but give them large credit, and sell them great quantities of goods, by which they again are enabled to trust the tailors, who make the clothes, or even their neighbors who wear them.[35]

Adam Smith, as indicated previously, also makes frequent mention of wholesalers. He referred at one point to wholesale merchants in the grocery trade who carried a stock of £10,000 at a profit of only 8% to 10% as compared with a profit of 40% to 50% for the small retail grocer.[36]

Cloth, hardware, glass, cutlery, notions, wine, tobacco, corn, iron, and tea were some of the other commodities handled by wholesalers. In some trades the wholesaler occupied an exceedingly strong position, as evidenced by the pin makers' complaint to Parliament late in the seventeenth century of the tendency of wholesalers who bought pins for resale to retail shops to beat down the price and take advantage of the poor circumstances in which the plaintiffs found themselves.[37] Thus it is evident that the operations of wholesalers prior to the nineteenth century were not different essentially from those of the modern wholesaler. They stored stocks of merchandise, arranged for transportation, engaged "riders out" to solicit business, and bought from various sources either directly or through factors and brokers.

Factors constituted another type of wholesale middleman of this era. The factors of old were much like the brokers of today, their function being to buy and sell goods for others on a commission basis, although some of the factors resembled more the commission merchant of modern times. The literature of

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[35] Daniel Defoe, "The Complete English Tradesman," Vol. I, p. 267.

[36] Adam Smith, "Wealth of Nations," Everyman's Edition, Vol. I, p. 100, London and Toronto, published by J. M. Dents & Sons, Ltd., and in New York by E. P. Dutton & Co., Inc., 1917.

[37] Beatrice and Sidney Webb, "History of Trade Unionism," p. 42, New York and London, Longmans, Green & Co., 1920.

the period gives us some idea of the degree of specialization in types of wholesale middlemen. Clive Day, for example, refers to a writer of the seventeenth century who distinguished between five classes of factors: those who bought goods for others, those who sold for others, those who made collections for principals (for bankers or business men), forwarders who received and forwarded merchandise which had to be transshipped, and those who acted as agents for carriers.[38] The factor became increasingly important towards the end of the mercantilistic period. In the textile industry, for illustration, the factors of London became the outstanding agency for mercantile capital. They exercised extensive control over a large part of the cloth trade, so much so that in 1739 it was complained that the factor who started as a servant of the cloth maker became his master.[39]

Wholesaling in Europe During the Nineteenth Century

The history of wholesaling in Europe during the nineteenth century is closely associated with the history of the economic and political evolution which took place during that period. The century was marked by great advances in science and invention, growth of political unity, financial stability, and consequent stimulation of all trade including wholesaling. Among the most important developments affecting wholesale trade favorably may be mentioned the changing modes of transportation, the Industrial Revolution and general industrial progress that followed it, improvements in communication, development of organized banking, and changing attitude of governments toward trading companies.

During the latter half of the eighteenth and the early years of the nineteenth centuries, European countries launched upon an era of canal building. In England it extended from about 1760 to 1820, the network of canals built during this period totaling approximately 3,000 miles. In France and Germany, canals were constructed to supplement the facilities afforded by their navigable rivers, the total canal mileage of France even

[38] C. Day, "A History of Commerce," p. 142, New York, Longmans, Green & Co., 1914.

[39] L. B. Numier, "A Mid-eighteenth Century Merchant," *English Historical Review*, October, 1927, p. 517.

exceeding that of England by a few miles.[40] Railroads, which came later, facilitated wholesale trade even more. The first railroad in England, the Stockton and Darlington, began operations in 1825, and by 1900 rail mileage in that country amounted to 21,855.[41] The first important railway, operating between Paris and Rouen, started in 1843. By 1904 the railway mileage of France was almost 25,000. Similarly, the first railroad in Germany plying between Nuremberg and Fürth was started in 1835, while by 1900 there were 31,049 miles of railways in the German Empire.[42] Steamships were another factor in the progress of transportation, followed by widespread improvements in roads, under the leadership of two Scottish engineers, Thomas Telford and John Macadam.[42]

The rapid succession with which invention followed invention in the early part of the century is a matter of common knowledge. This period was marked by the application of power to machinery and improvements of earlier inventions. The movement toward larger scale production and growth in urban population was given considerable impetus by the discovery of the Bessemer steel process in 1855 and the open hearth process in 1870. When the telegraph was invented in 1840, followed by the invention of telephony and the establishment of cheaper postal service, rapid strides were made in the field of communication, so essential to the best use of exchanges and the establishment of world prices. Regular banking organizations were founded during the century in the most important countries of Europe, replacing in large part the private bankers or joint stock companies of merchants.

Above all, wholesaling benefited by a change in the attitude of the governments toward trade, particularly toward the large trading companies which operated as monopolies. Individuals grew restive under the system of mercantilism and the severe restrictions placed upon business by government; hence the development of a demand for a laissez faire policy. The factory system of production gave a marked impetus to this individualistic

[40] F. A. Ogg, and W. R. Sharp, "Economic Development of Modern Europe," pp. 229 and 238, New York, The Macmillan Co., 1926.

[41] *Ibid.*, p. 233.

[42] *Ibid.*, pp. 237-241.

philosophy. Many restrictions upon trade were removed and some of the powers formerly given exclusively to trading companies were considerably modified. Wholesale trade was further aided by the codification of the commercial laws of various countries inaugurated by France in 1807 and followed by Belgium, Italy, Spain, and several other European nations. Germany established a general code of commerce in 1861, which was followed by Austria, Hungary, Switzerland, and other countries.[43]

Growth in Wholesale Volume of Business.—Wholesale trade, encouraged by the above-mentioned factors, grew by leaps and bounds. While in 1800 England imported only £28,000,000 worth of goods and exported £33,000,000 worth of merchandise, the average annual figures at the end of the century were £393,000,000 and £238,000,000 for imports and exports, respectively, exclusive of £60,000,000 worth of goods designated as re-exports.[44] In Germany, the export trade alone increased ten times between 1840 and 1900 and the number of houses engaged in this kind of trade increased from several hundred to 2,000.[45]

Various wholesale marketing institutions were in existence in Europe during the nineteenth century and much shifting was in evidence. Fairs, for example, which had occupied a prominent place at an earlier period, were gradually supplanted by more permanent markets, although a few continue to this day. Important developments also took place which stimulated the growth of exchanges and auctions. In London alone there were established during this period a wool exchange, a wool auction, a corn (grain) exchange, a metal exchange, a coal exchange, a shipping exchange, and one exchange—the Baltic—where dealings took place in all commodities. About 1820, during the severe depression then existing, cooperatives for the marketing of flour were started at Rochdale and Leeds, England.

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[43] *Encyclopaedia of the Social Sciences,* Vol. IV, p. 17.
[44] W. Cunningham, "The Growth of English Industry and Trade," pp. 358 and 377, Cambridge University Press.
[45] Clive Day, "A History of Commerce," p. 334, New York, The Macmillan Co., 1931; New York, Longmans, Green & Co., 1914.

Wholesale Middlemen and Institutions of the Nineteenth Century.—In the corn markets of England during the nineteenth century, the corn merchant and the corn jobber occupied prominent positions. The operations of these two middlemen overlapped to a certain extent, both engaging in speculation, although the jobber speculated more in time relations, while the merchant speculated in place relations. The former bought and sold according to his estimates of the future prices in a particular market, while the latter bought and sold in many markets, domestic and foreign, according to the prices prevailing or likely to prevail in each of these markets. Consequently, the corn merchant was primarily an exporter and importer, while the corn jobber was the wholesaler operating in the domestic markets. Factors, who bought corn by sample, as already described, were another type of wholesale middleman in the corn trade as was also the badger who engaged factors to go to the markets and large estates to buy up grain and care for its shipment to their principal. Corn chandlers sold primarily at retail, although they sometimes bought on commission for stable keepers.

In the textile industry, the draper or wholesale merchant employed bagmen who went from town to town with samples of merchandise, soliciting orders which were later delivered. Factors operated in the cloth markets buying and selling to drapers, merchants, and manufacturers. Linen merchants dealt in imports and exports of cloth. Practically the same types of middlemen were in operation during the nineteenth century as in the preceding century, but their relative importance increased with the concentration of population in large cities and because of the other elements previously explained.[46]

In the meat industry there were graziers who bought cattle for fattening, carcass butchers who were the wholesale butchers and meat dealers, and meat jobbers. In the coal industry there were the coal factors who operated more like present-day selling agents in the same industry, and coal undertakers whose main

[46] For a good description of the middlemen in England, see R. B. Westerfield, "Middlemen in English Business," in *Transactions of the Connecticut Academy of Arts and Sciences*, Vol. XIX, New Haven, Conn., Yale University Press, 1915.

function was to take charge of loading and unloading operations.

Wholesaling activity in England during the nineteenth century had definitely come into its own. There had been a marked decline in the importance of trading companies, a development of export and import houses specializing in wholesaling, a decline in fairs as a marketing institution, a tremendous development in established markets and established wholesale firms, a growth in exchanges and organized auctions, a mutiplication in the number of middlemen, and a higher degree of specialization by commodities and functions.

Similar developments took place on the European continent, although some of these developments were more or less belated. In France, the fairs also declined in importance, and established markets like the Halles Centrales [47] of Paris came into prominence. An increase in the number of specialized wholesale middlemen also took place. Being largely an agrarian country, France led all other countries in the development of produce markets.

In Germany, fairs held an important place in the wholesaling structure until about the middle of the century. Even as late as 1841 the business transacted at the fair of Leipzig amounted to £4,905,000, exclusive of the large volume of business done through a clearing house or cancellation system, known as sales in the books, for which the Leipzig fair was famous.[48] By 1850, however, fairs showed a tendency to decline and traveling or itinerary merchants made their appearance. With the decline of the Hansa towns, German trade fell off very rapidly, so that by 1860 relatively little wholesale trade was carried on in Germany. With the coming of the canals, railroads, improved surface roads, political unity, the Industrial Revolution, and the opening of colonies of other nations to foreign trade, German wholesale trade advanced rapidly. In 1886 Berlin organized its food markets and created a central hall for

[47] The Halles Centrales is a large produce market, in which goods are sold both at wholesale and at retail, although wholesale operations predominate.

[48] Stephen Colwell, "The Ways and Means of Payment," Phila., Pa., L. B. Lippincott & Co., 1859, p. 285.

wholesale dealings.[49] The increasing importance of these developments may be gauged by the fact that from 1840 to 1900 wholesale merchants in German trade increased twenty-fold in number.[50]

In Russia as in a number of the European countries in the same stage of commercial development, the commerce of the nineteenth century was much like that which prevailed in France and in England during the latter part of the Middle Ages. Largely agrarian throughout the period under consideration, fairs still constituted the principal means for the exchange of goods on a wholesale basis in these backward nations. The Fair of Nijnii-Novgorod in Russia, for example, was important throughout the century for the sale of iron, corn, furs, salt, tea, fish, wine, pottery, and certain manufactures.[51] Merchants from Russia, from Iran (Persia), and from Armenia were the chief traders at these fairs. On the frontiers of China, Russian trade was transacted principally through the Fair at Kiachta, Mongolia. A small amount of trade was also carried on by traveling wholesale merchants whose main dealings were in the grains shipped by river to Odessa for export, or by way of German seaports.

Summary.—The history of wholesaling extends back to the beginnings of commerce among civilized men. Indeed there is evidence in archaeological and anthropological research that widespread traffic in commodities and slaves, which may be considered a rudimentary form of wholesaling, existed before the dawn of civilization. Caravan routes, rivers, inland seas, and finally the oceans were used for commercial purposes from the earliest days. The great civilizations which were nourished by such rivers as the Tigris and Euphrates, the Nile, the Ganges, and the Huang Ho grew rich and powerful by engaging in commerce.

The ancient Sumerians and Babylonians, the Phoenicians, the Egyptians, the Chinese, the Princes of India and later the

[49] J. H. Clapham, "The Economic Development of France and Germany, 1815-1914," p. 369, Cambridge University Press, 1928.

[50] Clive Day, "A History of Commerce," p. 334, New York, Longmans, Green & Co., 1926 edition.

[51] For a description of "The Great Fairs and Markets of Europe" see article by R. H. Horne, *Harper's Magazine*, pp. 376-385, Vol. 46.

Persians, Greeks, and Romans, all engaged in wholesale trading activities, many of which were highly developed. The ancient Greeks even distinguished sharply between wholesaling and retailing, holding the first in great respect while scorning retailing as an occupation fit only for slaves.

Following the decline of Rome, wholesale trade in Europe suffered a temporary eclipse. It continued to thrive in the Orient, however, and the centuries-old trade routes brought the luxury merchandise of the East to the shores of the Mediterranean whence it eventually filtered into Europe. The rise of the Italian cities of Venice, Genoa, and Pisa was due largely to commerce. They were strategically located to exchange the rude but valuable produce of northern Europe which found its way across Alpine passes or down the Danube or Po rivers to Italy for the spices, silks, perfumes, and luxury goods from Cathay and India.

In the North, trade was hampered by the insecurity of the times and the multitude of robber barons who thrived on plundering traveling merchants. The Hanseatic League was developed by traders before the time of organized states and provided its own military escorts to insure safety to its shipments of goods. The League was to the North what the Italian cities were to the Mediterranean area, the organized wholesale trade of its day.

The growth of more stable government brought changes in the methods of wholesaling. Fairs and itinerant wholesalers gave place to organized exchanges and other established wholesale institutions appeared. The mercantilistic period saw the development of specialized wholesale middlemen such as brokers and factors as well as a further spread of wholesale merchants of both general and specialized lines of merchandise. Organized exchanges, auctions, market halls, and fairs continued to serve as places where wholesale trade was conducted. This same era saw the rise of the merchant princes who so largely displaced the old feudal aristocracy.

The dawn of the nineteenth century, which ushered in the Industrial Revolution and large-scale production, saw the continued expansion of wholesaling which was facilitated by the

rapid development of canals, railroads, steamboats, and other channels of transportation. The discovery and utilization of the telegraph and the telephone, the codification of commercial laws, the rising standards of living, all contributed to a larger commerce. Wholesaling institutions grew in numbers and in diversity. Specialization by functions and by lines of merchandise proceeded apace until the close of the century found the modern wholesaling pattern established in its major essentials.

CHAPTER 4

DEVELOPMENT OF WHOLESALING IN THE UNITED STATES

Wholesaling During the Colonial Period.—The development of wholesale trade in the United States had its inception with the grants made by European monarchs of the sixteenth and seventeenth centuries to merchant companies for the purpose of colonizing the New World. The mercantilistic doctrines of that era dictated the colonial policy of the European powers. Trade was foremost among the motives which underlay the early efforts at empire building. Colonies were sought for two major purposes: (1) as sources of raw materials for domestic industry in the parent country and (2) as markets for the products of the same industry.

One need but recall the colonial history of the United States to be impressed with the early importance of trade. The lumber, fish, and shipping industries of New England; the fur trade of the north and west; the tobacco culture of Virginia and the south; all of these smack of commerce and merchant trading. This traffic was largely water-borne and consisted of coastwise trade and of exporting to and importing from Europe, both of which are primarily wholesale trading activities. Truly it has been pointed out that:

> Internal commerce can scarcely be said to have existed in America prior to the revolutionary era . . . and about the only domestic commerce of importance was the coasting trade.[1]

It required many years of intensive effort to develop the vast hinterland of the Atlantic coastal colonies. Transportation was a limiting factor, and was confined largely to rivers and Indian trails until such time as roads could be carved through the wil-

[1] E. R. Johnson, T. W. VanMetre, G. G. Huebner, and D. S. Hanchett, "History of Domestic and Foreign Commerce of the United States," Pt. II, p. 193, Washington, D. C. Published by the Carnegie Institute of Washington, 1915, Reprint, 1922.

derness. With the growth of population the pioneers gradually sifted westward, first along natural routes but later over highways of their own devising. Towns sprang up at the intersections of water and land routes, and trade grew with the towns. Records of the times indicate that much of the trade at interior points was essentially wholesaling.

> The owners of general stores where sugar, tea, coffee, molasses, cloth, hardware, metals, and earthenware were freely bartered for grain, meat, poultry, cheese, butter, candles, fruits, vegetables, and rude articles of domestic manufacture, derived large profits out of their position as middlemen between the producing farmer and the importing and exporting merchant at the nearest seaport . . . Practically all the internal trade was devoted to bringing the surplus agricultural produce of the interior to the seaport towns, where it was exchanged for imported wares that could not be produced by the inhabitants of the inland region but which were necessary to their welfare. The domestic commodities collected at the seaports were nearly all exported to foreign countries.[2]

Obviously internal trade or commerce as herein described was largely wholesale business.

It is difficult, if not impossible, to measure quantitatively the extent of wholesale trading during the colonial period. Statistics were not compiled on a very adequate basis even for foreign commerce until long after the United States had become a nation. A few facts are available, however, which are enlightening. Trade between Great Britain and the American colonies amounted to £419,986 in 1697 according to figures compiled by the customs officers in British ports. By 1700 the total had increased to £739,367 of which £395,023 were exports from the colonies to Great Britain and £344,343 represented imports from Great Britain.[3] These statistics, as a measure of colonial trade, are open to many defects. Among the more serious may be mentioned the failure to account for the direct trade of the colonies with the West Indies, with Europe, and with Africa. Even for British colonial trade the figures are apt to be understated due to low valuations placed upon goods entered in the customs ports, and to the extensive operations of smugglers.

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[2] *Ibid.*, pp. 202 and 204.
[3] *Ibid.*, p. 74

The following data based upon official British statistics serve to indicate the trend of colonial trade with Great Britain for the greater part of the eighteenth century. These figures show the tremendous expansion of wholesale trade with Great Britain from approximately half a million pounds in 1710 to nearly 3 million pounds in 1770. Total colonial trade was much more extensive, however, and amounted to £5,475,853 in 1769. Exports were valued at £2,852,441 while imports accounted for £2,623,412 of this total. Thus it appears that the yearly average trade with Great Britain for the decade ended in 1770 was little more than one-half of the total colonial foreign trade.[4]

Post-Revolutionary Wholesaling.—The political transition from colonial to independent national status in 1776 was less significant to the evolution of wholesaling than were the economic changes of the late eighteenth century. Economic forces, indeed, are held by modern historians to have been the fundamental causes of the political controversy which culminated in the birth of a new nation. The interruption of commerce occasioned by the Revolution and by post-war political readjustments were but minor obstacles to the continuous expansion of the same flow of commerce which we have traced through the colonial period.

Several years elapsed before the new nation began to record the volume of its foreign trade but by 1790 annual statistics on imports and exports of merchandise were being collected. Continuous data are available from that year down to the present time.[5] These data, while they cannot be taken as measures of the absolute magnitude of wholesale trade, nevertheless afford some idea of the expansion and relative change that has taken place in wholesaling in the early years of this nation's existence. In 1790, the exports of the United States were a little over $20 million, and consisted mainly of flour, wheat, lumber, corn, fish, potash, tobacco, rice, and indigo. The imports during 1791 amounted to $25 million and comprised principally manufac-

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[4] *Ibid.*, pp. 89-90. For more detailed data, see also pp. 118-121.

[5] Annual Reports on Foreign Commerce and Navigation of the United States. U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce.

tures, wines, spirits, malt liquors, and colonial wares such as sugar, molasses, coffee, and tea.[6]

Foreign Commerce During the Nineteenth Century.—The foreign trade of the United States provides the best quantitative index of wholesaling activity available for the nineteenth century, since it is the only phase of wholesaling for which statistics were collected and much of the wholesale trade of the country at the time consisted of exports and imports. This trade continued to grow in absolute amounts, as shown in Table 1, which

TABLE 1. MERCHANDISE EXPORTS AND IMPORTS OF THE U. S. 1790–1899 [a]

(In thousands of dollars)

Decade Ended	Imports Yearly Average	Exports Yearly Average
1799	52,360	41,698
1809	93,352	74,953
1819	62,057	58,696
1829	74,122	69,233
1839	115,967	98,351
1849	110,570	117,484
1859	266,464	229,967
1869	323,633	248,407
1879	512,022	545,014
1889	680,051	762,917
1899	757,265	971,204

[a] Commerce and Navigation of the United States, 1910, U. S. Department of Commerce and Labor, U. S. Bureau of Statistics, p. 46.

presents the yearly averages of exports and imports for the eleven decades from 1790 to 1899. Total foreign trade increased from some $43 million in 1790 to more than $1,728 million in 1899. It is noteworthy that the annual average volume of trade increased each decade but one, for exports, and each decade but two, for imports. The decade ended in 1819 was seriously affected by the War of 1812 which reduced our shipping practically to the vanishing point in 1814 as compared with the following year.[7]

[6] Clive Day, "A History of Commerce," 1914 edition, pp. 458 and 464.

[7] Exports fell from $27,856,000 in 1813 to $6,927,000 in 1814 and imports from $22,005,000 to $12,965,000 in the same period. In 1815 exports rose to $52,558,000 and imports to $113,041,000.

Domestic Wholesaling 1800-1850.—Up to the nineteenth century the internal trade of the United States had undergone very little change from colonial days. The country was still a frontier community with two-thirds of its population on the Atlantic seaboard. Means of transportation were inadequate or completely lacking. Even as late as 1802, according to a description by the French traveler, Michaux, goods, consisting largely of firearms, small metal articles, dry goods, and other valuable commodities, were transported from Philadelphia to Pittsburgh in large covered wagons, drawn by four horses, two abreast.[8] There appears to have been relatively little competition in internal wholesale trade possibly because none of the powerful wholesaling concerns which were to make their appearance later had yet been established. Most of the wholesaling of the period was divided between the frontier trading posts and the country general stores on the one hand, which continued as in colonial days to assemble the raw produce of the land, and, on the other hand, importers who also dealt in the more profitable goods of domestic manufacture. Items in the latter category, however, amounted to but a few million dollars per annum in value. They included textile products, pig and bar iron, lumber, carpentry, wheelwrighting, furniture, wagons, harness, hats, shoes, and meat products. As the products of domestic manufacture increased a number of specialized middlemen sprang up to market them. About 1808 the first wholesale house to be entirely divorced from importing was established in the United States at Eaton, Ohio, by Cornelius Vanausdal, who in 1828 opened a similar place of business in Cincinnati, Ohio. Both houses presumably dealt in dry goods.[9]

In 1809, John Jacob Astor, the German fur merchant, who was said to be the only millionaire in this country at the turn of the nineteenth century, founded the American Fur Company, followed by the Pacific Fur Company in 1810, and the South-West Company in 1811, thus becoming the leading wholesaler

[8] E. L. Bogart, "Economic History of the American People," p. 350, New York, Longman's Green & Co., 1930.

[9] B. F. Morgan, publisher and compiler, "Directory of Preble County, Ohio, for 1875," pp. 73 and 75, Eaton, Ohio, 1875.

of his day.[10] Astor, in common with other East India merchant princes of that time, also engaged in importing spices, tea, sugar, coffee, fruits, wines, and liquors. Thus the wholesale grocery trade during the early part of the century was definitely associated with general importing, although it was beginning to show signs of a distinctive existence. This development is well set forth by an early writer about this period in the following quotation:

> Returning again to the grocery trade proper, the opening of the nineteenth century witnessed the advent of the wholesale grocer. He was almost invariably a retailer as well with the distinction that he carried a larger stock in bulk and catered to the provincial trade, which was then commencing to seek New York as the metropolis. This trade was active only in the spring and autumn, when the country buyers came in. Goods were shipped almost entirely by water, the river and coasting sloop taking them as far as possible, when they would be landed and transferred to carts to continue to their destination. For this trade the wholesalers could only prepare at these particular seasons, and during the rest of the year their market was limited to the local trade. It was the custom of these old time grocers . . . . to club together, and when some large importer received a cargo of coffee, tea, sugar, etc., purchase the whole consignment, which they would then apportion among themselves.[11]

The War of 1812 stimulated the development of American manufactures, which in turn gave impetus to the wholesale business of the country. The first rolling mill was opened in Pittsburgh in 1812.[12] The period of 1815-1818 marked the beginning of quantity canning in tin in the United States following the introduction of the secret of hermetically sealing food in tin cans by Ezra Daggett,[13] and, in 1818, the meat packing industry started in Cincinnati.[14] This increase in industry called for greater marketing facilities. By the end of the first quarter of the nineteenth century, enough wholesale houses were established in different parts of the country to provide American manufacturers with ample channels for the distribution of their

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[10] H. G. Selfridge, "The Romance of Commerce," p. 331-332, New York, John Lane Co., 1918.

[11] C. M. Depew. (ed.), "1795-1895, One Hundred Years of American Commerce," p. 596, New York, D. O. Haynes & Co., 1895.

[12] M. Keir, "The Epic of Industry," p. 30, New Haven, Yale University Press, 1926.

[13] C. M. Depew (ed.), "One Hundred Years of American Commerce," p. 396.

[14] E. C. Semple, "American History and its Geographic Conditions," p. 358, Boston, Houghton Mifflin Co., 1903.

goods. In 1828 Boston jobbing houses were selling over a million dollars worth of shoes, and four jobbing houses located in New York sold $600,000 worth of footwear annually. After 1830, similar houses handling boots and shoes, as well as hats and caps, were in existence in all of the larger cities of the South and West.[15] Wholesalers apparently made an effort to serve their retail trade by sending out traveling salesmen to the stores, in order to sell necessary goods and to help retailers keep reasonable stocks without the necessity of frequent visits, on horseback or by stage, to the eastern cities.[16]

Evidently it took some time for these wholesale establishments to break entirely away from retailing as a side line. The transition was as gradual as the separation of wholesaling and importing which has been mentioned above. Probably the first establishment in the United States to divorce wholesaling from retail trade was the wholesale dry goods house established at the close of the War of 1812 by Elisha Riggs, a draper, in Georgetown, Maryland, now a part of the District of Columbia.[17] A little later, in 1834, a census taken in Detroit by A. E. Hathon of all wholesale and retail business of that city, revealed the fact that of the 64 stores and warehouses recorded, only 2 establishments were listed as strictly wholesale. One of these was operated by Rufus Brown, a wholesale grocer, and the other by George Wales, a wine and spirit merchant.[18] The following excerpts from advertisements appearing during the first half of the nineteenth century indicate the nature of integration of functions, particularly between wholesaling and retailing, which were typical of the times. McCord and Company of Pittsburgh claimed to be "wholesale and retail manufacturers of hats, caps, and furs, and dealers in straw goods." [19] W. MacKeown of the same city represented himself as a "wholesale druggist and manufacturer of carbon oil, white lead, etc., window glass and glassware at manufacturer's prices." [20] One of

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15 C. M. Depew (ed.), "One Hundred Years of American Commerce," p. 571.

16 M. Welker, "Farm Life in Central Ohio Sixty Years Ago," p. 67-68, Wooster, Ohio, 1892.

17 Elbert Hubbard, "Little Journeys to the Homes of Great Business Men," Vol. XI, p. 316, New York and Chicago, Wm. H. Wise and Co., 1916.

18 F. Palmer, "Early Days of Detroit," Hunt and June Pub., 1906.

19 G. W. Hawes, "Ohio State Gazeteer & Business Directory," p. 916, published and compiled in Indianapolis, Indiana, 1860.

20 *Ibid.*, p. 916.

the dry goods concerns of Cleveland, Ohio, advertised as follows:

> Will keep constantly on hand a complete assortment of every kind of dry goods, English, French and American for the supply of country merchants. Retail departments will have fashionable and seasonable articles for city trade.

Another Cleveland concern is responsible for the following advertisement:

> Wm. E. Gold, wholesale and retail dealer in staple and fancy dry goods, boots and shoes. A large stock of above description merchandise generally found in store and respectfully offered to public. Country merchants supplied at a reasonable advance upon cost.[21]

Wholesaling in Different Lines of Trade.—An interesting fact to be noted from the history of these various trades is that wholesaling developed differently along varying economic fronts. In the boot and shoe trade the wholesaler dates back to about 1810, wholesale dealers of New England selling boots and shoes to "grocers, dry goods, and hardware dealers throughout the country as well as to shoe dealers proper."[22] In the wholesale drug business the development also came early. In fact, one firm, Schieffelin & Company of New York is reported to have been established in 1794; another, the firm of Powers & Weightman of Philadelphia was organized in 1818 as Farr & Kunzi; and McKesson & Robbins was founded in 1833 under the name of Olcott & McKesson. The last-mentioned concern was the first wholesale drug house to operate a separate laboratory on a large scale for the purpose of manufacturing a general line of pharmaceuticals.[23] The formation of the Western Wholesale Druggists' Association in 1876 was hailed as an epochal event of the century for the drug trade. In 1882, when many Eastern wholesale druggists joined with those of the West, the National Wholesale Druggists' Association was formed, numbering towards the end of the century 258 active and 153 associate members.[24] In the wholesale stationery business records show that

[21] Julius P. Bolivar MacCabe, "Directory of Cleveland and Ohio City, for the Years 1837-38," published in 1837 by Sanford & Lott, and reproduced by Guardian Savings & Trust Company in 1908.

[22] C. M. Depew (ed.), "One Hundred Years of American Commerce," p. 571.

[23] *Ibid.*, pp. 617-618.

[24] *Ibid.*, p. 612.

jobbing came a little later. In 1837, an exclusive wholesale stationery house selling not only to retailers but also to jobbers was operated by L. I. Cohen, an importing stationer of promi-

TABLE 2. DATE OF ESTABLISHMENT AND DATE OF PRESENT (1930) OWNERSHIP FOR WHOLESALE GROCERY HOUSES ORGANIZED PRIOR TO 1850 [a]

WHOLESALE MERCHANTS GENERAL LINE			WHOLESALE MERCHANTS SPECIALTY		
Number of Establishments	Date of Establishment	Date of Present Ownership	Number of Establishments	Date of Establishment	Date of Present Ownership
1...........	1787	1923	1..........	1730	1928
5...........	1795	1894	1..........	1790	1790
1.	1811	1921	1...........	1809	1809
1...........	1819	1819	1.	1812	1822
1...........	1826	1905	1...........	1812	1824
1...........	1830	1830	1...	1820	1905
1...........	1832	1907	1...........	1825	1893
1...........	1836	1921	1...........	1830	1919
1...........	1838	1910	1...........	1830	1921
1...........	1840	1920	1...........	1830	1922
1...........	1842	1842	1...........	1834	1905
1...........	1842	1891	1...........	1834	1925
1...........	1842	1921	1...........	1835	1929
1...........	1844	1903	1...........	1838	1903
1...........	1844	1915	1...........	1838	1911
1...........	1845	1886	1...........	1838	1918
1...........	1845	1901	1...........	1840	1919
1...........	1845	1913	1...........	1842	1912
1...........	1845	1924	1...........	1842	1920
1...........	1847	1847	1...........	1845	1908
1...........	1849	1849	2...........	1845	1920
1...........	1849	1921	1...........	1845	1923
			1...........	1849	1924

[a] N. H. Engle, "Wholesale Trade in Groceries and Food Specialties," p. 46, Fifteenth Census of the United States, Census of Distribution, Distribution No. W-205, Washington, D. C., U. S. Government Printing Office, 1933.

nence. In 1845, Richard Bainbridge came to New York and introduced to this stationery concern the English and Continental method of traveling with samples, which proved very successful.[25]

[25] *Ibid.*, pp. 643-644.

Additional evidence of the early establishment of wholesale trading in the United States may be found in the special studies growing out of the first Census of Distribution. In the hardware trade, for example, out of a total of 734 general line wholesale merchants which reported in 1929, 50 were established prior to 1850. Similarly, 17 out of 741 specialty hardware wholesalers operating in 1929 reported that their firms were in business prior to 1850.[26] In the grocery trade 26 general line and 24 specialty wholesalers reported in 1929 that their firms had been in business before 1850. Indeed, as shown in Table 2, six general line wholesalers and two specialty houses had been in operation prior to the nineteenth century. Whether or not these establishments have always been engaged in wholesaling cannot be determined. It is more than likely that they have started as importers and possibly combined retail trading with their other operations in the early days of their existence.

Rise and Development of Wholesale Trading Centers.—With the expansion of wholesale trade and the differentiation by lines of merchandise, came also the development of wholesaling centers. Detroit, Michigan, was one of the earliest to appear in this role in the West. Over one-half of the merchandise sold in Detroit in the year 1838, for example, went to interior points. By 1840 St. Louis took its place as the "great emporium" of commercial activity of the upper Mississippi Valley, rivaling such other centers as Pittsburgh, Cincinnati, and Louisville. The Merchants' Exchange was opened in Cincinnati in 1846, and its jobbing and wholesale houses supplied country merchants with a complete line of dry goods, hardware, groceries, and drugs. It is reported that these goods were sold by Cincinnati wholesale houses as cheaply as they could be bought in the eastern cities, the Cincinnati wholesalers, moreover, carrying unusually large and complete stocks.[27] In the South, according to the best statistics available, Savannah, Georgia, in 1848, had 263 merchants, factors, and wholesale dealers, and 136 shop-

[26] T. N Beckman, "The Wholesale Hardware Trade," Fifteenth Census of the United States, Census of Distribution, Distribution No. W-203, pp. 24-25, U. S. Government Printing Office, Washington. 1933.

[27] J. Hall, "The West's Commerce and Navigation," p. 320, Cincinnati, H. W. Derby & Co., 1848.

keepers and retail grocers. By 1850, New York City had a total of 740 importers, operating in 18 different lines of trade, dry goods importers leading with 139, followed by 108 importers of wines and liquors, and 107 importers of hardware.[28] Internal trade was growing rapidly, so that the trade of a single New York market in 1850 exceeded the total foreign trade of the United States of a century earlier.

Further data on the geographical concentration of wholesaling appears in early official statistics. An effort was made by the Census Bureau to enumerate the extent of the commerce of the United States in 1840, nearly a century before the first Census of Distribution. At that time there were but 29 states in the Union in addition to the District of Columbia. Data were collected and compiled for these areas on the major lines of trade (see Table 3). A total capital of more than $390 million was invested in the domestic trade covered by this census. There were 2,881 commission houses, 1,793 lumber yards, 1,108 commercial houses in foreign trade, and an extensive meat industry. The commercial houses in foreign trade were concentrated in New York, Massachusetts and Pennsylvania, these three states accounting for 904 of the total of 1,108. New York alone had 469 houses which represented over 40% of the total capital invested by such concerns. Louisiana, which had but 24 commission houses nevertheless ranked second only to New York with 14% of the invested capital. In the butcher and meat packing industry Ohio led by a wide margin with over 40% of the total capital invested in that business. New York was second in this trade with less than 25% of the total invested capital.

Domestic Wholesaling During the Latter Half of the Nineteenth Century.—During the first half of the nineteenth century most wholesale houses in the United States, whether the business was combined with that of retailing, importing, or manufacturing, did not specialize but carried a variety of merchandise in a single line or in several lines of goods. Specialization in goods began to develop during the second quarter of the

[28] R. S. Fisher, "Statistical Gazeteer of the United States of America," pp. 579 and 773, New York, J. H. Colton, 1858.

century but "it was about the year 1850 that the custom of making a specialty of a certain kind of merchandise became general." [29] Goods were offered for sale in much greater detail as

TABLE 3. COMMERCE OF THE UNITED STATES BY STATES: 1840 [a]

State	Number of Commercial Houses in Foreign Trade	Commission Houses		Lumber Yards and Trade		Butchers Packers, etc.
		Number of houses	Per cent of invested capital[b]	Number of yards	Per cent of invested capital[c]	Per cent of invested capital[d]
Total	1,108	2,881	100.00	1,793	100.00	100.00
Maine	70	14	1 38	68	3.10	0.83
New Hampshire	18	6	1 12	9	0.29	0.47
Massachusetts	241	123	11 64	137	10.38	3.54
Rhode Island	44	57	1.71	41	2.59	0.62
Connecticut	10	13	0.47	57	4.45	1.41
Vermont	....	....	....	14	0.46	0 23
New York	469	1,044	41 56	414	27.36	24.58
New Jersey	2	8	0.08	86	4.17	1.78
Pennsylvania	194	178	3.07	284	22.75	6.31
Delaware	....	....	....	22	0.84	0.12
Maryland	70	117	3.70	48	3.12	0.25
Virginia	31	64	3.60	41	1.15	0 87
North Carolina	4	46	0.13	20	0.47	0.08
South Carolina	41	41	3.07	14	1.02	0 98
Georgia	4	82	1 29	26	0.77	0.11
Alabama	51	101	2 81	9	0.02	0.81
Mississippi	7	67	0 56	11	1.34	0.04
Louisiana	24	381	14.06	121	2.64	1 25
Tennessee	13	52	1 25	9	0.07	0 86
Kentucky	5	50	0.52	95	1.08	1.59
Ohio	53	241	4 97	78	3.79	40.06
Indiana	11	26	1.01	37	0.92	5.05
Illinois	2	51	0.28	39	0.95	5.57
Missouri	3	39	0 63	45	3.23	1.51
Arkansas	10	10	0.08	9	0.12	0.01
Michigan	....	26	0.15	15	0 46	0.34
Florida	23	21	0.45	16	0 65	0.10
Wisconsin	1	7	0.05	14	0.22	0.12
Iowa	....	14	0.08	3	0.17	....
District of Columbia	7	2	0.26	11	1.42	0.51

[a] Statistics of the U. S. A.—1840.
[b] Total invested capital $119,295,367.
[c] Total invested capital $ 9,848,307.
[d] Total invested capital $11,526,950.

to items stocked, and both retailers and wholesalers carried the matter of specialization in a single type of merchandise to a fine point. Thus, in the dry goods trade alone different importers and wholesalers specialized in such lines of goods as notions and

[29] G. D. Hunt, "History of Salem and the Immediate Vicinity," p. 135, Salem, Ohio, 1898.

small wares; white goods and linens; silks and dress goods; hats and caps; and hosiery, underwear, and gloves.[30]

The further development of wholesale centers is apparent during this period. By 1850 Chicago was a prominent wholesale center. Cooley, Wadsworth and Company, a firm which engaged largely in the wholesale business, was the most notable in the city and was the forerunner of the present Marshall Field Company.[31] The large development of the wholesale hardware business of St. Louis dates back to the establishment of the Simmons Hardware Company in 1855. Edward C. Simmons, who started the enterprise, introduced traveling salesmen into the hardware field. When finally incorporated in 1874, this concern is said to have been the first mercantile firm to incorporate in the United States.[32] By 1856 there were some 200 wholesale and jobbing houses in Boston alone, selling shoes, whose annual volume of business was estimated at more than $50 million, while New York boasted of 56 such business houses doing an annual volume of about $15 million.[33]

The total volume of wholesale trading done in the United States internally is not known. That it was quite extensive just before the Civil War, however, can perhaps be gauged from an estimate that in 1860 New England sent to the South some $60 million worth of merchandise, comprising cotton and woolen manufactures, fish, molasses, and shoes, while the South in turn sold to New England naval stores, cotton, hemp, flour, and animal products to the extent of $55 million.[34] At this time the organization of commerce appears to have been fairly complex. Merchandise apparently passed through a number of hands before reaching the consumer, but lack of information makes an accurate appraisal of the marketing structure impossible. For one reason the trade directories of the time, which are the chief source of information, failed to distinguish wholesalers from retailers. We do know, however, that industry was

[30] C. M. Depew (ed.), "One Hundred Years of American Commerce," p. 556.
[31] S. H. Ditchett, "Marshall Field and Company—The Life Story of a Great Concern," p. 15, New York, *The Dry Goods Economist*, 1922.
[32] B. C. Forbes, "Men Who Are Making America," p. 352, New York, B. C. Forbes Publishing Co., 1917.
[33] C. M. Depew (ed.), "One Hundred Years of American Commerce," p. 572.
[34] Southern Historical Publication Society, "The South in the Building of the Nation," 1909, Vol. 5, p. 408.

growing apace and that there must have been corresponding activity in the field of distribution. Cotton mills, boot and shoe factories, plants producing hardware, rubber goods, and machinery, turned out a rising tide of commodities all of which had to be marketed. The Civil War further stimulated domestic manufacture because of the loss of ships and interference with foreign trade. Railroads were built on a large scale, replacing canal transportation. By 1890 the value of manufactures produced in the United States amounted to over four billion dollars, and the production of mineral and metal products exceeded a half million dollars in value. This is in contrast to an annual domestic production of but a few million dollars worth of manufactured goods produced at the beginning of the century.[35] From 1850 to 1900 the increase in the value of manufactured goods amounted to 1,100%. Likewise, the value of agricultural products increased tremendously, being tripled during the same period.[36]

The people of the United States appear to have patterned their distribution structure on that evolved in Europe. Most classes of domestic manufactures were handled through such middlemen as brokers, jobbers, or commission houses, who in turn distributed the goods to wholesalers. In some lines of merchandise, the manufacturer dealt directly with the wholesalers, but since many of the plants were small and widely scattered, the broker carved for himself a definite groove in the marketing structure of the latter half of the nineteenth century.

Wholesaling Trends During the Nineteenth Century.— Throughout most of the nineteenth century, the term merchant was commonly used to designate exporters and importers and large trading establishments generally, as well as the wholesaler. That is one reason for the difficulty in identifying strictly wholesale businesses in a study of old records, registers, and directories. This terminology was apparently borrowed from the mother country, where a merchant was generally defined as "a trader in an extensive way of doing business," or "a great ped-

[35] C. M. Depew (ed.), "One Hundred Years of American Commerce," p. 42.
[36] H. U. Faulkner, "Economic History of the United States," p. 162, New York, The Macmillan Co., 1928.

dler, sending round from land to land his ships, to mediate between nations." [37] Nevertheless, it is true that wholesalers, as well as wholesaling, played an important rôle in the economic development of the nation. Wholesalers themselves were held in great esteem. Writers of this period have referred to the keenness of the mercantile mind and the knowledge required for trading with all parts of the globe as well as to their mercantile skill, their integrity and the extent of their operations.[38] Through their stimulation of trade throughout the extent of the country, the wholesalers contributed to the development of steam transportation, and also proved a significant factor in reviving trade after the Civil War, and after the depression of 1873. The early Marshall Field organization, for example, operating at the time as Field, Leiter and Company, acted as its own banker after 1865, rendering financial assistance to the merchants in the small country towns in the vicinity of Chicago.[39] It is claimed that many retail merchants weathered the storm caused by the depression of 1873 because of aid given them by the wholesale houses which carried their accounts.

In the foregoing pages we have mentioned a number of distinct trends in wholesaling which are worthy of special note. One of the first of these tendencies was the separation of wholesaling from importing. The wholesale concern, either in domestic goods or in imported products, gradually became a separate institution during this period instead of being integrated with import and export dealings. This tendency undoubtedly contributed greatly to the growth of domestic commerce and to the building of the nation. A second of these trends was the separation of wholesaling from retailing. Although the first house to deal exclusively at wholesale was, as noted above, established as early as 1808, for many years thereafter wholesaling and retailing operations were commonly integrated. It was not until after the war between the states that the segregation of the two types of marketing began to be noticeable. As late as the 1850's wholesale houses sold also at retail, and retail stores,

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[37] Hunt's Merchants Magazine, Vol. 36, p. 263, and Vol. 37, p. 390, New York, 1857.

[38] J. Hall, "The West's Commerce and Navigation," pp. 12 and 21; and F. Hunt, "Lives of American Merchants," Vol. 2, p. 245, New York, Derby & Jackson, 1858.

[39] S. H. Ditchett, "Marshall Field and Company—The Life Story of a Great Concern," pp. 29-30.

like the Potter Palmer store of Chicago which led in the city's retail trade, operated a wholesale department.[40] Even after that some concerns, like the Marshall Field Company, continued to operate in both fields, although distinct establishments were maintained in order that the two types of business might be kept separate.

A third of the nineteenth century trends consisted in a growing specialization in certain types of merchandise. Inasmuch as general stores were the dominant type of retail organization during the early days, wholesalers found it necessary to handle a variety of merchandise in order that such stores might concentrate their purchases. As towns and cities grew and the general store gave way to stores dealing in a single line of merchandise or even in a limited number of commodities within a single line of goods, specialization by wholesalers became a practical possibility of which they took advantage. Such a development was particularly noticeable during the latter part of the century when factory production was firmly established and domestic commerce grew to enormous proportions.

A fourth trend lay in the introduction of a number of middlemen of different types, and in the growth in the number of wholesale middlemen of each type. Brokers and commission houses became important factors in the distribution of goods in the domestic market. Even wholesalers who took title to the goods were of several varieties. In addition to the regular type of wholesaler, and the jobber, who often dealt on a larger scale, there was the wholesale peddler, often denominated as a wagon peddler or perambulating wholesaler; the canal or river-boat wholesaler; and the coastwise boat wholesaler. These terms are self-explanatory, the means of transportation used by the dealer being the distinguishing characteristic. In some quarters, the wholesale peddler, now referred to as wagon distributor, is regarded as a new type of wholesaler. As a matter of fact, such wholesalers have existed in the United States for many years. For example, Henry W. Carter of Vermont was known as the "merchant prince" of the wholesale peddlers in New England as early as the second quarter of the nineteenth century. He had

[40] *Ibid.*, pp. 15-16

a virtual monopoly of that trade, his six wagons being equipped as jobbing establishments and carrying stocks equal in variety to those carried in the city by regular wholesale establishments. Each load was worth several thousand dollars and was sold to country merchants, who bought from $25 to $200 or more worth of goods at a time. It is claimed that one of Carter's wagons once sold $11,000 worth of cheap watches in a period of seven weeks. Each wagon was so routed that it covered 40 or 50 towns on each of the four round trips made every year.[41] Another example of the "perambulating wholesalers," this time from the West, was one Isaac Trescott who sold dry goods and notions, books, and paper. His three wagons, however, sold both at wholesale and at retail.[42] Canal or river-boat wholesalers as well as those wholesalers whose boats called on the coastal towns were also of considerable importance before the days of improved highways and railroads. There is, for example, the interesting account of the father of the Danbury hat industry:

> Up in Danbury, Connecticut, old Zadoc Bennedict, who fathered the hat industry in that town, would take a carload of hats to Norwalk, where they would go aboard a vessel and be distributed to merchants all along the coast.[43]

Other types of wholesale middlemen also had their beginning during this period. Branch-house wholesaling, for example, was practiced as early as the mid-century. Illustration is found in the business of Devlin and Company, established in New York in 1844 as a combined wholesaler and retailer, which operated branches at Washington, D. C., Richmond, Virginia, and Lexington, Kentucky, and which continued in business for about 30 years.[44] A still earlier example of branch house, or perhaps chain wholesaling is the two houses previously mentioned which were operated by Vanausdal at Eaton and Cincinnati, Ohio, which were established in 1808 and 1828, respectively. There was also the integration of wholesaling with manufacturing as

[41] R. Wright, "Hawkers and Walkers in Early America," pp. 84-85, Philadelphia, J. B. Lippincott Co., 1927.
[42] G. D. Hunt, "History of Salem and Immediate Vicinity," p. 133.
[43] R. Wright, "Hawkers and Walkers in Early America," pp. 254-255.
[44] F. Presbrey, "History and Development of Advertising," p. 254, Garden City, N. Y., Doubleday, Doran & Co., Inc., 1929.

evidenced by Sheldon and by Geyer and Brothers. Nash Sheldon of Cincinnati advertised himself as a "manufacturer of knives of every variety" and "as a general jobber." Geyer and Brothers claimed to be "Dealers in Furniture, and Manufacturers of Chairs of best quality." [45]

Twentieth Century Developments.—The dawn of a new century saw no revolutionary transition in wholesaling. Rather a continuation of the evolutionary processes we have been following characterized the early years of the century. It is amazing to the scientific student of wholesaling that he must await the third decade of the century for anything like adequate quantitative data on domestic wholesaling activities. Data for the foreign trade of the United States, however, practically all of which represents wholesale business, are available for every year of this century. For the decade ended in 1909, the average yearly imports were $1,087,800,000 and the average yearly exports amounted to $1,581,200,000. During the decade ended with 1919 the average yearly imports and exports were $2,239,922,000 and $3,938,335,000, respectively. During the decade ended in 1929 the average yearly imports and exports grew to $3,963,543,000 and $5,025,654,000, respectively.[46] Domestic trade has not been so exactly measured throughout the century despite its relatively greater significance in most lines of business. It is thus necessary to rely on estimates for a measure of total volume of wholesale business of United States.

Estimated Volume of Wholesale Trade, 1899-1935.—The exact extent of the total wholesale trade of established wholesale places of business in the United States, according to the *middle view* of wholesaling noted in Chapter 2, was first measured by the Census Bureau in 1929. Net sales for that year amounted to more than $69 billion.[47] Similar data are available also for 1933 by which time the influence of the great depression had reduced the total to $32 billion. Data for 1935 have

[45] B. F. Morgan, "Directory of Preble County, Ohio, for 1875," p. 44.
[46] Statistical Abstract of the United States, 1931, p. 488.
[47] This figure contains only that part of the total wholesale trade of the United States which was transacted by those establishments which the Census Bureau classified as specialists in wholesale trade. Specialized exporting and importing houses are included. Wholesaling transactions of farmers, mines and many other producers are excluded, as are direct exporting and importing by manufacturers and retailers.

also been collected by the Census Bureau, showing net sales of $42 billions.[48] For other years an estimate may be made

TABLE 4. ESTIMATED VOLUME OF WHOLESALE TRADE FOR THE UNITED STATES: 1899–1935 (In millions of dollars)

Year	Index 1929 = 100	Estimated Volume Wholesale Transactions
1899	17 9	$15,025
1900	19.3	16,223
1901	19.2	16,126
1902	23.3	19,552
1903	23.1	19,375
1904	23.2	19,483
1905	26.1	21,879
1906	28.8	24,173
1907	30.4	25,516
1908	27.9	23,421
1909	32.6	27,323
1910	35.3	29,595
1911	31.9	26,794
1912	38.3	32,115
1913	38.0	31,854
1914	37.9	31,806
1915	43.9	36,803
1916	57.5	48,221
1917	86.1	72,228
1918	92.5	77,597
1919	94.0	78,855
1920	116.7	97,908
1921	63.9	53,631
1922	74.8	62,757
1923	87.9	73,719
1924	82.6	69,262
1925	91.3	76,596
1926	94.9	79,630
1927	90.8	76,211
1928	96.9	81,306
1929	100.0	83,900
1930	78.1	65,493
1931	57.8	48,502
1932	42.4	35,544
1933	46.2	38,803
1934	56.3	47,269
1935	66.4	55,733

(Source: N. H. Engle, Survey of Current Business, May, 1936, U. S. Bureau of Foreign and Domestic Commerce)

48 This figure does not include the business of chain store warehouses which were included in the wholesale trade volume of the preceding censuses, hence 1935 results are underestimated by more than $2 billions.

by the utilization of a specially compiled index number. While such a procedure is hazardous at best and the results are admittedly imperfect, the authors believe they throw some light on the trend of wholesale trading since 1899 and that a cautious

TABLE 5. AN INDEX OF PHYSICAL VOLUME OF GOODS MARKETED AT WHOLESALE, UNITED STATES: 1899–1935

Year (1929 = 100)	(1) Index of Aggregate Value	(2) Index of Wholesale Prices	(3) Index of Physical Volume of Goods Marketed
1899	17 9	54.8	32 7
1900	19 3	58.9	32 8
1901	19.2	58.0	33 1
1902	23.3	61.8	37.7
1903	23.1	62.5	37.0
1904	23 2	62.6	37.1
1905	26.1	63.1	41.4
1906	28.8	64.8	44.4
1907	30.4	68.4	44.4
1908	27 9	66.0	42.3
1909	32.6	70.9	46.0
1910	35.3	73.9	47.8
1911	31.9	68.1	46.8
1912	38.3	72 5	52.8
1913	38.0	73.2	51.9
1914	37.9	71 5	53.0
1915	43.9	72.9	60.2
1916	57.5	89.7	64.1
1917	86.1	123.3	69.8
1918	92.5	137.8	67.1
1919	94.0	145.4	64.6
1920	116.7	162.0	68.9
1921	63.9	102.4	62.4
1922	74.8	101.5	73.7
1923	87.9	105.6	83.2
1924	82.6	102.9	80 3
1925	91.3	108.6	84.1
1926	94.9	104.9	90.5
1927	90.8	100.1	90.7
1928	96.9	101.5	95.5
1929	100.0	100.0	100.0
1930	78.1	90.7	86.1
1931	57.8	76.6	75.5
1932	42.4	68.0	62.4
1933	46.2	69.2	66.8
1934	56.3	78.6	71.6
1935	66 4	83.9	79.1

(Source: N. H. Engle, Survey of Current Business, May, 1936, U. S. Bureau of Foreign and Domestic Commerce)

TABLE 6. ESTIMATED NET SALES OF WHOLESALERS PROPER,[a] BY KINDS OF BUSINESS, 1929–1935,[b] INCLUSIVE [c]

Kind of Business	(Millions of Dollars)							Percentage of 1929 (1929=100)					
	1935 Actual	1934 Estimated	1933 Actual	1932 Estimated	1931 Estimated	1930 Estimated	1929 Actual	1935 Estimated	1934 Estimated	1933 Actual	1932 Estimated	1931 Estimated	1930 Estimated
Total	17,510	14,710	12,997	13,479	17,766	23,393	29,232	56	50	45	46	61	80
Amusement and sporting goods	117	110	104	104	121	138	173	69	64	60	60	70	80
Automotive products	779	550	438	400	590	900	1,383	47	40	32	29	43	65
Chemicals	275	252	229	240	270	350	413	70	61	55	58	65	85
Clothing and furnishings	647	476	418	500	750	1,000	1,104	46	43	38	45	68	91
Coal	362	350	318	360	450	600	677	51	52	47	53	66	89
Drugs and drug sundries	438	405	352	380	400	430	535	82	76	66	71	75	80
Dry goods	988	985	846	900	1,200	1,500	1,714	56	57	49	53	70	88
Electrical goods	554	330	276	360	470	690	847	51	39	33	43	55	81
Farm products—raw materials	1,495	1,400	1,242	1,120	2,000	2,900	3,698	41	38	34	30	54	78
Farm products—consumer goods	1,932	1,890	1,600	1,500	2,000	2,650	3,062	70	62	52	49	65	87
Farm supplies	278	250	246	275	390	500	568	48	44	43	48	69	88
Furniture and house furnishings	243	200	175	210	330	420	495	51	40	35	42	67	85
General merchandise	362	197	175	200	290	370	417	53	47	42	48	70	89
Groceries and foods	3,625	3,500	3,121	3,000	3,500	4,400	5,387	69	65	58	56	65	82
Hardware	428	400	342	370	490	610	715	64	56	48	52	69	85
Jewelry and optical goods	181	118	105	130	200	275	380	35	31	28	34	53	72
Lumber and building materials	491	295	279	330	410	700	1,225	31	24	23	27	33	57
Machinery equipment and supplies (except electrical)	830	540	488	530	590	800	1,188	57	45	41	45	50	67
Metals (except scrap)	280	185	161	195	290	485	673	34	27	24	29	43	72
Paper and its products	405	382	333	380	500	570	704	59	54	47	54	71	81
Petroleum and its products	133	270	236	335	470	600	679	44	40	35	49	69	88
Plumbing and heating equipment and supplies	243	165	143	175	280	360	498	50	33	29	35	56	72
Tobacco and its products (except leaf)	783	570	526	540	660	775	858	72	66	61	63	77	90
Waste materials	394	280	272	285	305	370	472	72	59	58	60	65	78
All other products	1,247	610	572	660	810	1,000	1,367	49	45	42	48	59	73

[a] Wholesalers proper consist of more or less regular wholesalers in domestic and foreign trade who take title to the goods they buy and sell and are largely independent in ownership.

[b] For comparative purposes the 1929 data have been adjusted to changes in classification of a few large establishments.

[c] Figures for 1929 are actual data taken from Fifteenth Census of the United States Wholesale Distribution adjusted to changes in classification in Census of American Business, 1933. The figures in 1933 are actual data taken from Census of American Business; 1930, 1931, 1932, and 1934 are estimates based on trends of currently published statistics. The figures for 1935 are from the Census of Business report for 1935 released November, 1936. (Source: Stanley Kedzierski, Bureau of Foreign and Domestic Commerce, U. S. Department of Commerce)

use of the estimates is justifiable. The accompanying tabulation (Table 4) contains both an index and the estimated volume of wholesale trade from 1899 through 1935. The total volume figures, however, measure the extent of wholesaling in the *broad* sense of the term (see Chapter 2) rather than in the narrower *middle view* of the Census Bureau. The data are, moreover, taken at the point of production or importation and do not include the wholesale distribution margins.

A rapid growth in wholesale trade is indicated by these data from 1901 to 1920 when the apex was reached. Since 1920 the course has been quite uneven, declining sharply in 1921 and climbing to $83,900,202,000 in 1929, the second highest point. The depression, which started late in 1929, brought about a decline to about the level of 1915 for the year 1933. It must be noted that these figures do not provide an adequate nor a completely accurate picture of the absolute growth of wholesale trade, however, since changes in the price level are responsible for much of the variation. An index of the physical volume of goods marketed presents a truer picture of the actual changes which have taken place. Such an index is presented in Table 5. This index shows a much steadier growth in the estimated volume of wholesale trade and shifts the 1920 peak to 1929. Indeed, the 1920 high point in value figures was very largely due to price inflation. Moreover, the decline since 1929, while severe, was apparently by no means as great in terms of physical volume of merchandise as in value terms.

Since 1929 annual estimates of the value of trade transacted by *wholesalers proper,* one of the more important groups of wholesale middlemen, have been issued by the Bureau of Foreign and Domestic Commerce. These data, unlike the two preceding sets of figures, measure wholesaling in the narrow sense of the term, as noted in Chapter 2. These estimates (see Table 6), include breakdowns by kinds of business as well as total figures for all trade. They are valuable as guides to the incidence of the depression on various lines of wholesale activity.

The exact composition of the wholesale trade of the United States in recent years, the types of institutions engaged in such business, will be discussed in detail in subsequent chapters.

CHAPTER 5

THE ECONOMIC FUNCTIONS OF WHOLESALING

The preceding chapters have dealt with the general nature of wholesale trade in the United States, and its historical setting. At this point it is well to examine in some detail the underlying economic functions of a system of wholesale distribution. These economic functions should not be confused with the technical or business functions performed by wholesale establishments. The technical functions, which will be discussed later, constitute the business mechanism whereby the more fundamental economic purposes are accomplished. For the purpose of studying the essential relations of the wholesale market to our economic structure the familiar classification of economic activity into production, distribution of income, exchange or price determination, and consumption is followed.

Wholesaling as a Part of the Productive Process.—In the economic sense, production consists of the creation of utilities, which, in turn, may be defined as want-satisfying power. Production, therefore, becomes the means for satisfying human wants. Wholesale marketing activities contribute to production through the creation of certain utilities, although such utilities are distinct from the change of form which is usually considered by the layman as *production.* Utilities created by wholesaling are those of time, place, and ownership. Time utility results from the greater capacity to satisfy human wants which a given commodity or service possesses at one point in time as compared with another. Thus the utility of a bushel of wheat which has been stored in a wholesale grain elevator from the time of harvest until the following spring is much greater normally in the spring than it was at the time of harvest. Similarly, place utility is the greater capacity to satisfy wants which a com-

modity possesses at a point of scarcity than at a point of plenty. Finally, ownership utility issues from the enhanced power of want satisfaction which a commodity usually has in the hands of a consumer over that which it enjoys when in the possession of a producer or middleman.

Wholesaling in Relation to Marginal Utility.—The basic explanation for the increment in value arising out of time, place, or possession utility lies in what is known by economists as the principle of diminishing marginal utility. This principle may be stated as follows: "The marginal utility of any economic good varies inversely as the quantity at disposal." [1]

Marginal utility means the utility or want satisfaction derivable from the last or marginal unit of a number of identical units of the same commodity. The principle of diminishing marginal utility applies to all kinds of commodities or services which satisfy human wants and can easily be established by consulting one's own experience. If one has a single automobile, the satisfaction derived from its use is very great. A second car would also have considerable utility for most people. A third car would normally have much less utility, while a fourth or fifth car would not be considered by the average person as adding anything at all to his enjoyment. Thus it is clear that the marginal utility of five automobiles would be the utility of the fifth or last one and this would be very low. The utility would increase for the marginal unit as the number decreased, being greatest of all for a single car. This principle may be illustrated by the accompanying diagram prepared by one of the earliest economists to formulate the law.

Carl Menger, writing in Austria about the time of our Civil War, saw that people's wants are divided among many commodities and that the principle of diminishing marginal utility applies to each commodity. Menger assumed that Commodity Number I (see Figure 1) was food and that the other commodities, II, III, IV, etc., were of diminishing immediate necessity to human life and well-being. He further assumed that one unit of food, Commodity I, has a utility of 10, a second

[1] F. M. Taylor, "Principles of Economics," p. 305, New York, The Ronald Press Co., 1925.

unit a utility of 9, whereas the eleventh unit has no utility at all. While Menger did not apply it specifically to wholesaling or even to marketing, this principle is, nevertheless, a fundamental explanation of the economic importance of the entire marketing process. Since there are in actual life a multitude of commodi-

Number of Units	Commodity and Utility per Unit of Each Commodity									
	I	II	III	IV	V	VI	VII	VIII	IX	X
1	10	9	8	7	6	5	4	3	2	1
2	9	8	7	6	5	4	3	2	1	0
3	8	7	6	5	4	3	2	1	0	
4	7	6	5	4	3	2	1	0		
5	6	5	4	3	2	1	0			
6	5	4	3	2	1	0				
7	4	3	2	1	0					
8	3	2	1	0						
9	2	1	0							
10	1	0								
11	0									

Figure 1. Diminishing Marginal Utilities of a Series of Ten Commodities

Adapted from Carl Menger, "Grundsätze der Volkswirtschaftslehre," p. 123, Holder-Pichler-Tempsky A. G. Wein, G. Freytag G.M.B.H., Leipzig, 1923)

ties it follows that a greater net utility accrues from exchanging or trading. Thus, to illustrate, if one man possessed six units of Commodity I, he would have a marginal utility of 5, while a second man with two units of Commodity V would also have a marginal utility of 5. The two men would thus have a combined marginal utility of 10. Now if each should be willing to exchange on the basis of one unit of Commodity I for one unit of Commodity V, both would benefit by the increased marginal utility resulting from the marketing transaction. The first man would have five units of Commodity I, the marginal utility of which would be 6 to him, and in addition one unit of Commodity V with a marginal utility of 6 also, or a combined marginal utility of 12. The second man would have disposed of one of his two units of Commodity V, which had a marginal utility of 5 to him, for one unit of Commodity I with a marginal utility of 10 to him and would have found the remaining

unit of Commodity V to have increased in marginal utility to 6, giving him a combined marginal utility of 16. Thus an original combined marginal utility of 10 for the two men would have increased by this exchange to 28.

The exchange of goods is seen by this illustration to perform a useful economic function, a fact which is true regardless of whether the exchange relates to time, place, or ownership. The increase in utility occurs with each or all such transactions.[2] Wholesaling in particular contributes to this basic social function of increasing economic utility through the performance of the technical marketing functions of storage, transportation, purchase, and sale described in the chapters that follow.

Wholesaling and Primary Production.—The specific relationship which exists between wholesaling and primary production may be illustrated by an examination of the field of agriculture. Agriculture produces form utilities, sometimes called primary utilities. This, however, is but the beginning of the productive process. Before human wants can be satisfied on any very wide scale the agricultural products must reach the consumers. This is the work of the marketing mechanism, and largely of the wholesaling parts thereof. Products are taken from the farmer and apportioned in time, place, and ownership to the needs of the consuming public. Much of this work is made necessary by the seasonal nature of agriculture, coupled with a fairly continuous demand throughout the year. In so far as the wholesale marketing structure performs these services it produces utilities which are fully as essential as those created by the farmer. In our complex modern system the wholesaler, like the farmer and the manufacturer, is a specialized agency which society has evolved to perform certain inescapable economic duties. Even under a system in which each individual produced for his own consumption it would be necessary to provide for storing the surplus produce of the harvest so that continuous wants could be satisfied throughout the year, although, of course, under such a simple economy the wholesaler would not appear as a separate economic institution.

[2] See W. D. Moriarty, "Economics of Marketing and Advertising," New York, Harper & Bros., 1923—Ch. XXII for an excellent discussion of this point.

What is true of agriculture applies, in part at least, to the extractive industries generally. Although the production of coal, iron, copper, petroleum, and other mineral products is not essentially seasonal and hence does not create comparable storage problems, other marketing services are necessary if these raw materials are to be utilized fully for the satisfaction of human wants. They must be assembled for transport, moved from the point of production to assembly points, and redistributed to the industries which utilize them. Place and ownership utilities are thus created.

Wholesaling and Secondary Production.—The economic functions of wholesaling are much the same for manufacturing as they are for the extractive industries. Certain economic functions intimately identified with the satisfaction of our wants for manufactured commodities are marketing functions, and must be performed for the better utilization of our available resources. The precise point of incidence in the cleavage between production activities and those of wholesale distribution may be difficult to define. The most complete separation is arbitrarily to draw the line at the point where the finished product is ready for delivery either to a transportation system or to a storage warehouse. Difficulty grows out of the fact that frequently the manufacturer performs at least some of the wholesaling functions, and has come to look upon them as a part of his work. In a system of distribution which permitted the producer to operate continuously at or near capacity with an outside agency absorbing his output as fast as he could produce it, the activities of transportation and storage, and certain other technical functions would be clearly seen as marketing activities.[3]

The fundamental purpose of the marketing mechanism, as a whole, is to serve as a link between production and consumption. It is the duty of the wholesaling part of the marketing structure to act as a clearing house for consumer demands which have been collected by the retailer and transmitted to the

[3] The development of *field warehousing*, discussed in Chapter 27, serves to throw the storage function into bold relief.

various wholesaling establishments, albeit imperfectly at times. Since the demands which are thus assembled by wholesalers and other wholesale distributors cannot be instantly supplied because of the necessary lag in production in a highly specialized economic system such as that found in the United States, storage reservoirs must be provided at strategic points roughly correlated geographically with the consuming centers of population. These reservoirs make possible a more continuous production by manufacturers since they serve to impound surpluses until such times as demand exceeds the current capacity to produce.

In brief, for manufacturing industries which supply highly seasonal demands, the underlying wholesaling functions of equalizing demand and supply are the same as those in the seasonal extractive industries, and the identical technical function of storage is used to achieve the more fundamental objective, although there is an interesting difference in the emphasis. In the latter industries it was noted that the wholesaling function of storage is essential to permit the adjusting of a seasonal supply to a continuous demand whereas for the manufacturing industries, or for some of them at least, the wholesale market structure assists in reconciling a more continuous production to seasonal demand. In both fields of production, time, place, and ownership utilities are created by the wholesaling activities.

Finally, it may be said that wholesaling functions are inherent in and fundamental to economic activity. In undeveloped economies where the consumer satisfies most of his wants by his own productive effort, these functions are rudimentary and are not performed by specialized agencies. As the degree of specialization increases and producers restrict their own activities to producing commodities which are designed to supply the wants of others, it becomes necessary to set up specialized marketing agencies. The greater the separation between producer and consumer, and the wider the market becomes, the more essential it is to develop specialized wholesaling organizations to take over and perform those economic functions which were embryonic in the simpler economic life.

Early Conception of Wholesaling

These facts have been noted by economists from the earliest scientific approach to the study of economics, although they have not been applied specifically to wholesaling and the wholesale market to any appreciable degree since the time of Adam Smith. In his writings, Adam Smith, who is commonly regarded as the father of classical economic doctrine, showed a clearer understanding of the wholesale market, its ramifications and functions, than have many of his successors.

Adam Smith's Conception of Wholesaling.—Adam Smith noted a four-fold division of economic activity, or, as he put it, of the *employment of capital*. These four sets of economic activity are now called primary production, or the extractive industries; secondary production or manufacturing and processing; wholesale trade; and retail trade.[4] He adds that "Each of those four methods of employing a capital is essentially necessary either to the existence or extension of the other three, or to the general convenience of the society."

In discussing the distribution function of wholesale and retail trade he amply justified the use of capital in such employment.[5] Smith classified wholesale trade into three divisions: domestic trade, foreign trade, and the carrying trade.[6] He also made a distinction between dealers in raw materials and dealers in manufactured goods, and divided raw materials or *rude produce* into products of lands, mines, and fisheries. On this basis, merchants who handled forest products, agricultural raw

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[4] "A capital may be employed in four different ways: either, first, in procuring the rude produce annually required for the use and consumption of the society; or, secondly, in manufacturing and preparing that rude produce for immediate use and consumption; or, thirdly, in transporting either the rude or manufactured produce from the places where they abound to those where they are wanted; or, lastly, in dividing particular portions of either into such small parcels as suit the occasional demands of those who want them. In the first way are employed the capitals of all those who undertake the improvement or cultivation of lands, mines, or fisheries; in the second, those of all master manufacturers; in the third, those of all wholesale merchants; and in the fourth, those of all retailers. It is difficult to conceive that a capital should be employed in any way which may not be classed under some one or other of those four." "The Wealth of Nations," Bk. II, Ch. V, p. 276, edition by George Routledge and Sons, Ltd., London, and E. P. Dutton & Co., New York.

[5] "Unless a capital was employed in transporting, either the rude or manufactured produce, from the places where it abounds to those where it is wanted, no more of either could be produced than was necessary for the consumption of the neighborhood. The capital of the merchant exchanges the surplus produce of one place for that of another, and thus encourages the industry and increases the enjoyments of both." *Ibid.*, p. 277.

[6] *Ibid.*, p. 283.

materials, metals and minerals in their crude state, and the various types of sea food, would have been classified as wholesale merchants, much as they are today. Smith made a further and interesting distinction between wholesalers of grain and wholesalers of manufactured goods, thereby revealing the subdivision of wholesaling which existed during the eighteenth century. His descriptions of some of these types have a peculiarly modern ring to them.

"The trade of the corn merchant," according to Smith, "is composed of four different branches, which, though they may sometimes be all carried on by the same person, are in their own nature four separate and distinct trades." [7] "These are—I, the trade of the inland dealer"; (assembler or country buyer or elevator. Smith includes farmers and bakers but distinguishes between *first owner* and *inland dealer*); "II, that of the merchant importer for home consumption; III, that of the merchant exporter of home produce for foreign consumption; and IV, that of the merchant carrier, or of the importer of corn in order to export it again." [8] He has indicated, moreover, the existence of *wholesale agents* who operated in the smaller towns as representatives of the wealthier merchants, and listed an "inferior set of dealers, millers, bakers, mealmen, meal factors, wretched hucksters," as "almost the only middle people that, in the home market, come between the grower and the consumer." [9]

In discussing wholesaling functions Smith enumerated transportation, buying, and selling, and referred to the storage function, as well as to that of financing producers.[10] His understanding of the economic importance of marketing functions is

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[7] Here is a recognition of multiple types of wholesaling that is of interest in view of the extensive practice of this method which prevails today. See T. N. Beckman, and N. H. Engle, "Multiple Types of Wholesaling," U. S. Census of Distribution, 15th Decennial Census, Washington, D. C., U. S. Government Printing Office, 1932, for a discussion of this point.

[8] Adam Smith, "The Wealth of Nations," p. 401.

[9] *Ibid.*, p. 404.

[10] The latter is discussed in the following statement: "The capital of the wholesale merchant replaces, together with their profits, the capital of the farmers and manufacturers of whom he purchases the rude and manufactured produce which he deals in, and thereby enables them to continue their respective trades. It is by this service chiefly that he contributes indirectly to support the productive labour of the society, and to increase the value of its annual produce. His capital employs, too, the sailors and carriers who transport his goods from one place to another, and it augments the price of those goods by the value, not only of his profits, but of their wages. This is all the productive labour which it immediately puts into motion, and all the value which it immediately adds to the annual produce. Its operation in both these respects is a good deal superior to that of the capital of the retailer." *Ibid.*, p. 279.

well brought out in the description of the wholesale corn (grain) merchant wherein he analyzed the importance of spreading a short crop throughout the year to prevent famine at the end of the season. He also indicated the risk which the corn merchant assumes.[11] Perhaps one of the most important of the economic functions discussed by Adam Smith is that of the contribution which the wholesaler makes to economic specialization and hence to economic efficiency.[12] He justifies the existence of the wholesaler in these words:

> After the business of the farmer, that of the *corn merchant* is in reality the trade which, if properly protected and encouraged, would contribute the most to the raising of corn. It would support the trade of the farmer, in the same manner as the trade of the *wholesale dealer* supports that of the manufacturer.[13]

Commerce, which means wholesale trade according to Adam Smith's definition, performed three more useful social functions: (1) It encouraged cultivation and improvement of land by providing large and ready markets for the produce of the land, (2) contributed to more efficient utilization of land by the fact that wealthy merchants, wishing the prestige of land ownership, bought up available land and by applying business methods to its cultivation added to the wealth of the community, and (3) gradually introduced order and good government with liberty and security of individuals.[14]

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[11] "If by raising it (the price) too high, he discourages the consumption so much that the supply is likely to go beyond the consumption of the season, and to last for some time after the next crop begins to come in, he runs the hazard, not only of losing a considerable part of his corn by natural causes, but of being obliged to sell what remains of it for much less than what he might have had for it several months before." *Ibid.*, p. 401.

[12] *Ibid.*, p. 406

[13] *Ibid.*, pp. 407 and 408. Italics by the authors. Note also the following quotations from p. 408: "The wholesale dealer, by affording a ready market to the manufacturer, by taking his goods off his hands as fast as he can make them, and by sometimes even advancing their price to him before he has made them, enables him to keep his whole capital, and sometimes even more than his whole capital, constantly employed in manufacturing, and consequently to manufacture a much greater quantity of goods than if he was obliged to dispose of them himself to the immediate consumers, or even to the retailers. As the capital of the wholesale merchant, too, is generally sufficient to replace that of many manufacturers, this intercourse between him and them interests the owner of a large capital to support the owners of a great number of small ones, and to assist them in those losses and misfortunes which might otherwise prove ruinous to them.

"An intercourse of the same kind universally established between the farmers and the corn merchants, would be attended with effects equally beneficial to the farmers. They would be enabled to keep their whole capitals, and even more than their whole capitals, constantly employed in cultivation. In case of any of those accidents, to which no trade is more liable than theirs, they would find in their ordinary customer, the wealthy corn merchant, a person who had both an interest to support them, and the ability to do it, and they would not, as at present, be entirely dependent upon the forbearance of their landlord or the mercy of his steward."

[14] *Ibid.*, Bk. III, Ch. IV.

J. B. Say's Conception of Wholesaling.—The followers of Adam Smith with few exceptions paid but scant attention to wholesale trade. Most of them neither described it nor analyzed its functions. David Ricardo alludes to domestic trading activities but briefly in his principal work. Jean Baptiste Say, the French economist, who wrote at the turn of the eighteenth century, devoted somewhat more thought to this subject. He not only divided industry into three branches—agricultural, manufacturing, and commercial, but distinguished quite clearly between wholesale and retail trading.[15]

The following quotations illustrate Say's insight into both the economic and the technical functions of wholesaling activities:

> In fact, the transport of products cannot be effected without the concurrence of a variety of means, which have each an intrinsic value of their own, and of which the actual transport itself, in the literal and confined sense of the term, is commonly not the most chargeable. There must be one commercial establishment at the place where the products are collected; another at the place it is transported to; besides package and warehousing.
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> There must be an advance of capital equivalent to the value transported. Moreover, there are agents, insurers, and brokers, to be paid. *All these are really productive occupations, since, without their agency, the consumer can never enjoy the product;* and supposing their remuneration to be reduced by competition to the lowest rate possible, he can be in no way cheaper supplied.
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> There is a further branch of commerce, called the trade of speculation, which consists in the purchase of goods at one time, to be re-sold in the same place and condition at another time, when they are expected to be

[15] J. B Say, "A Treatise on Political Economy," American Edition, pp. 99 and 100, Philadelphia, Grigg & Elliot, 1845. Note especially the following quotation from p. 331: "All branches of industry do not require an equal degree of capacity and knowledge. A farmer who adventures in tillage, is not expected to have such extensive knowledge as a merchant, who adventures in trade with distant countries. The farmer may do well enough with a knowledge of the ordinary routine of two or three kinds of cultivation. But the science necessary for conducting a commerce with long returns is of a much higher order. It is necessary to be well versed, not only in the nature and quality of the merchandise in which the adventure is made, but likewise to have some notion of the extent of demand, and of the markets whither it is consigned for sale. For this purpose, the trader must be constantly informed of the price-current of every commodity in different parts of the world. To form a correct estimate of these prices, he must be acquainted with the different national currencies, and their relative value, or as it is termed, the rate of exchange. He must know the means of transport, its risk and expense, the custom and laws of the people he corresponds with; in addition to all which, he must possess sufficient knowledge of mankind to preserve him from the dangers of misplaced confidence in his agents, correspondents, and connexions. If the science requisite to make a good farmer is more common than that which can make a good merchant, it is not surprising, that the labour of the former is but poorly paid, in comparison with that of the latter.

"It is not meant by this to be understood, that commercial industry in every branch, requires a combination of rarer qualifications than agricultural. The retail dealers for the most part pursue the routine of their business quite as mechanically as the generality of farmers."

dearer. Even this trade is productive; its utility consists in the employment of capital, warehouses, care in the preservation, in short, human industry in the withdrawing from circulation a commodity depressed in value by temporary superabundance, and thereby reduced in price below the charges of production, so as to discourage its production, with the design and purpose of restoring it to circulation when it shall become more scarce, and when its price shall be raised above the natural price, the charges of production, so as to throw a loss upon the consumers. *The evident operation of this kind of trade is, to transport commodities in respect of time, instead of locality.*

The carrying trade, as Smith calls it, consists in the purchase of goods in one foreign market for re-sale in another foreign market. This branch of industry is beneficial not only to the merchant that practices it, but also to the two nations between whom it is practiced.[16]

Say was particularly aware of the technical problems of business management and the wisdom of allocating them to specialized business interests. This attitude is well illustrated by his discussion of the various possibilities for handling the grain trade for the public weal in which he discards as impractical or otherwise likely to be ineffective (1) individual provision for future needs, (2) provision by speculators, (3) provision by the government itself. Here he mentions, "The difficulties of managing a commercial concern, of buying, storing, and reselling" thus enumerating several marketing functions.[17]

J. R. McCulloch's Conception.—McCulloch was an outstanding exception to the general rule of neglect of the field of wholesaling by the economists who followed Adam Smith. The following excerpts from his writings on the subject indicate the clarity and comprehensiveness of his thinking in this field.

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[16] *Ibid*., p. 103. Italics by the authors.

[17] Say's understanding of wholesaling activity is further illustrated in his conclusion that:

"Generally speaking, it appears that there is no safe dependence for a reserve of supply against a season of scarcity, unless the business be confided to the discretionary management of mercantile houses of the first capital, credit, and intelligence, willing to undertake the purchase, and the filling and replenishment of the granaries upon certain stipulated terms, and with the prospect of such advantages, as may fairly recompense them for all their trouble. The operation would then be safe and effectual, for the contractors would give security for due performance; and it would also be cheaper executed in this way than in any other.

"Public stores and granaries are after all but auxiliary and temporary expedients of supply. The most abundant and advantageous supply will always be that furnished by the utmost freedom of commerce, whose duties in respect to grain consist chiefly in transporting the produce from the farmyard to the principal markets, and thence in smaller quantities from the markets of the districts where it is superabundant to those of others that may be scantily supplied; or in exporting when cheap, and importing when dear." *Ibid.*, p. 190.

The mercantile class has been divided into two leading classes—the wholesale dealers and the retail dealers. This division, like the divisions in other employments, has grown out of a sense of its utility. The wholesale merchants buy the goods at first hand of the producers; but instead of disposing of them to the consumers, they generally sell them to the retailers or shopkeepers, by whom they are retailed or distributed to the public in such quantities and in such a way as is most suitable for them. The interest of all parties is consulted by this division. Had the wholesale dealers attempted also to retail their goods, they could not have given that undivided attention to any part of their business, so necessary to ensure its success. A retailer should be constantly at his shop; not merely that he may attend to the orders daily sent to him, but that he may learn all that transpires with respect to the situation of his customers, their wants, and their circumstances. But wholesale dealers, being obliged to attend to what is going on in different and distant quarters, cannot give this minute attention to what happens in their immediate vicinity; and though they could, the capital required to carry on a wholesale business would not be sufficient for that purpose were the business of retailing joined to it. Were there only one class of merchants, the capital and the number of individuals employed in commercial undertakings would not, probably, be less than at present; but the merchant, being obliged to apply himself principally to one department, would have to leave the chief share of the management of the other to servants—a change which, as every one knows, would be productive of the most mischievous consequences.

Besides the two great classes of wholesale and retail dealers, there are various subordinate classes, such as brokers, factors, agents, etc., employed in carrying on the business of commerce.[18]

[18] McCulloch further points out the following details about the "most important" of these subordinate types of wholesale mediaries. "Brokers are persons employed, as middle-men, to transact business or negotiate bargains between different merchants or individuals. They are sometimes licensed by public authority, and sometimes not. They are divided into numerous classes, as bill or exchange brokers, stock brokers, ship and insurance brokers, etc. It is usual, too, for the brokers who negotiate sales of produce between different merchants, to confine themselves to some one department or line of business; and by attending to it exclusively, they acquire a more intimate knowledge of its various details, and of the credit of those engaged in it, than could be looked for on the part of a general merchant; and are consequently able, for the most part, to buy on cheaper and sell on dearer terms, than those less familiar with the business. It is to these circumstances, to a sense of advantages to be derived from using their intervention in the transacting of business, that the extensive employment of brokers in London, and all other large commercial cities, is to be ascribed.

"Factors are agents employed to transact business. They are not generally resident in the same place as their principals, but usually in a foreign country, or a distant part of the same country. They are authorized, either by letter of attorney, or otherwise, to receive, buy and sell goods and merchandise, and, generally, to transact all sorts of business on account of their employers, under such conditions and limitations as the latter may choose to impose. A very large proportion of the foreign trade of this, and most other countries, is at present carried on by means of factors or agents.

"A factor is usually paid by a percentage or commission on the goods he sells or buys. If he act under what is called a del credere commission, that is, if he guarantee the price of the goods sold on account of his principal, he receives an additional percentage to indemnify him for this additional responsibility. In cases of this sort, the factor stands in the buyer's place, and must answer to the principal for the value of the goods sold. But where the factor undertakes no responsibility, and intimates that he acts only on

Treatment of Wholesaling by Later Economists.—In sharp contrast with McCulloch's treatment of wholesaling is the very limited attention which John Stuart Mill, the great economist of the last century, paid to it. He scarcely mentions the subject of marketing beyond pointing out the great amount of labor employed in the distributing trade or as he designates it, the "Distributing Class." He rates this use of labor as secondary or supplementary to that used in the "Producing Class," [19] and bemoans the existence of so many "mere distributors." [20] He recognizes, however, the functions of one important element of the grain trade, that of the speculator. "The interest, in short, of the speculators as a body, coincides with the interest of the public," he writes.[21] Beyond these few comments John Stuart Mill pays little heed to trading or traders. His example, moreover, was followed very largely by most of the outstanding economists who have followed him. Even the exhaustive analyst of the economic structure, the great Alfred Marshall, touches but lightly on these important segments of our economy in his major work, "Principles of Economics." He does, however, make up for his neglect, although quite inadequately, in his works on "Industry and Trade" and "Money, Credit, and Commerce."

It is anomalous that the science of economics which builds its theory upon concepts of the market has delved so little into the nature and scope of marketing institutions. American econ-

account of another, it is clearly established that he is not liable in the event of the buyer's failing.

"Commercial travelers form, in Great Britain, a numerous and a highly useful class. They are employed by the wholesale merchants, and frequently also by the manufacturers. Their business is to visit the retail dealers in different parts of the country, and to inform themselves of their character and circumstances, and the degree of credit that may be safely given to them; to give the dealers every requisite information with respect to the articles which they undertake to furnish; to receive payment of accounts; and to receive and transmit orders to their employers. The information that is thus obtained by the manufacturers and wholesale dealers enables them to conduct their business with comparative security; and the wish to stand well in the estimation of the traveller is a motive to the retail dealers to be punctual to their engagements. The travellers generally make their visits periodically, giving previous intimation of their approach to those whom they visit. The number of such persons in Great Britain is very great. Some are paid by a commission on the business which they perform; but the great majority are paid by salaries." J. R. McCulloch, "Treatise on the Principles, Practice and History of Commerce," published by the Society for the Diffusion of Useful Knowledge, London, 1833, pp. 3-6.

[19] J. S. Mill, "Principles of Political Economy," Ashley Edition, London, Longmans, Green & Co., 1923, pp. 37-39.

[20] *Ibid.*, p. 789. The following quotation explains Mill's general attitude towards those engaged in the pursuit of marketing:—"the class of mere distributors, who are not producers but auxiliaries of production, and whose inordinate numbers, far more than the gains of capitalists, are the cause why so great a portion of the wealth produced does not reach the producers—."

[21] *Ibid.*, p. 708.

omists have shared with others this neglect or oversight. Most of the general textbooks on economics have devoted much space to discussions of production, exchange, value, distribution, and consumption, whereas marketing, an understanding of which would seem so essential to a knowledge of actual price determination, is usually overlooked or greatly underestimated. There are exceptions to this statement in such works as that of General Francis A. Walker, who included a very good discussion of the wholesale market in his general treatise on economics,[22] and in some of the more recent textbooks in this field.[23] In general, however, it is a fair criticism to state that insufficient study has been given to the contribution which marketing economics may have for the growing body of economic doctrine.

The failure to include a more elaborate discussion of marketing is perhaps more a matter of relative emphasis than of outright neglect. It is common, for example, to define the term 'production' broadly enough to embrace the activities of merchants and distributors. But when the term is actually used and illustrated, the meaning frequently narrows to manufacturing or agricultural processes, and no more is said of marketing until value or price determination is analyzed. Under the heading of price the market comes in for slight attention, but usually in an idealized and oversimplified form. Without intending to cast any reflection upon the necessity for abstraction in teaching so complicated a theme as the economic theory of value, it would seem that the abstraction might well be given a more realistic treatment than is commonly done.[24]

Wholesaling and the Distribution of Wealth and Income

The foregoing sections of this chapter have treated at some length the relation of the wholesale marketing structure to the process of *economic production.* Special emphasis has been placed upon the contributions of early economists to the subject of wholesaling, much of which is a defense of wholesalers as producers. Wholesaling also plays a significant rôle in the *distribution* of wealth and income as that subject is treated in most discussions of economics. The term, distribution, is subject to a dual use. In its popular sense it is synonymous

[22] Francis A. Walker, "Political Economy," Pt. III, Ch. 1, New York, Henry Holt & Co., 1888.

[23] Among these may be mentioned those by Bye and Hewitt; Fairchild, Furniss, and Buck; Knight and Smith; and S. H. Slichter.

[24] N. H. Engle, *The American Economic Review,* June, 1933, Vol. XXIII, No. 2, pp. 190 and 191.

with marketing and refers to the processes which facilitate the flow of merchandise from producer to consumer. It was in this sense that the term was used by the Bureau of the Census in the Census of Distribution. The economist, on the other hand, uses the term, *distribution,* as a technical, scientific name for the economic forces and the processes which determine the shares or proportions of the total volume of income which shall be allocated to the various economic groups which participate in the production of our total national income. For the sake of simplifying a highly complex problem the economist divides the productive agents of the community into four groups: laborers, capitalists, landlords, and entrepreneurs. Each of these agents, which together comprise practically the whole of society, contributes to the joint productive process, and receives a share of the total joint income. Since the economist has earmarked the term *distribution* with the foregoing meaning by long usage, it is perhaps desirable to use another term such as *marketing* to describe the flow of goods, or to prefix the word distribution by a qualifying adjective to avoid confusion. Thus we may speak of *merchandise distribution* or of *wholesale and retail distribution,* without ambiguity.

The determination of the relation which *wholesale distribution* bears to *economic distribution* as outlined above is the concern of this section. What bearing has the wholesaling structure upon the fundamental determination of incomes? The answer is two-fold, a direct and an indirect influence.

Direct Effect of Wholesaling on Wealth and Income.—Marketing activities require the use of economic factors of production, labor, land, capital, and enterprise or management, and hence have a direct effect upon the incomes of suppliers of these factors. Wages, interest, rent, and profits are derived in varying degrees from the economic services rendered by the wholesaling institutions to the community and distributed by the wholesaling entrepreneurs to the groups which cooperate with them in performing the functions of wholesaling. Some idea of the direct contribution which wholesaling makes to the total income of the country may be gleaned from an analysis of the

distribution of our national income. In 1929 wholesale trade accounted for nearly 5% of the total national income paid out by the industries of the United States. It was thus more important as a source of income than the construction industry, the mining industry, the electric power and gas industry, or all of our communication services. It maintained its position fairly well throughout the depression and accounted for 4½% of the national income in 1934. In absolute volume the income paid out by the wholesale trading institutions of the country amounted to $3,795 million in 1929 and $2,193 million in 1934.[25]

No analysis of the economic importance of wholesaling in relation to economic distribution would be complete which ignored the elements composing the national income. Of the total income paid out by the wholesale trade in 1929, over three billion dollars constituted the compensation of salary and wage employees, as well as other labor incomes. Dividends made up nearly $200 million, while interest was slightly over $15 million. Entrepreneurial withdrawals, which consisted partly of profit on capital invested in wholesaling, and partly of imputed wages for entrepreneurs, was in excess of a half billion dollars. All of these items declined during the depression, reaching a low point, with the exception of interest, in 1933, and recovered slightly in 1934. Interest reached the low point in 1934. Total income paid out by wholesale trade in the latter year was estimated at $2,193 million, of which $1,898 million went to employees and other labor income, $11,425,000 to dividends, $13,614,000 to interest, and $269,793 to entrepreneurial withdrawals.

It is significant to note that salaries and wages made up over 79% of the total income paid out by wholesale trade in 1929 in contrast with slightly over 68% for retail trade, the nearest comparable group. Dividends were somewhat higher for wholesale trade while interest was slightly lower. The item making up most of the difference between the two groups was entrepreneurial withdrawals which were less than 15% in wholesale trade and over 26% in retail trade. This relationship con-

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[25] National Income Estimates—U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce—see Appendix A.

tinued between the years 1929 and 1934, although the relative amounts of the different items varied somewhat. These recent facts give some idea of the direct contribution made by wholesaling institutions to the distribution of income.

Indirect Effect of Wholesaling on Wealth and Income.—A second influence exerted by wholesaling institutions upon economic distribution, while indirect, is no less important. This is the effect upon real income as contrasted with money income. The shares of income directly derived from wholesaling, as from other economic effort are normally in the form of money. The real income of the receiver of money income consists in the satisfaction of basic wants and the gratification of other desires found in the consumption of goods and services which the money income buys. Real incomes, then, are economic goods and services.

The determination of real incomes is superficially the resultant of two elements, the size of the money incomes, and the prices that must be paid for commodities and services. If money income be large, and prices temporarily low, real income will be large, and the reverse will be true if money income be small and prices high. Since money incomes are essentially prices commanded by, and paid to, the suppliers of economic services, there is a tendency for money wages to rise and fall with other prices. Frequently, there is considerable lag, however, since some prices are more flexible than others and wages are generally more sluggish than are commodity prices. Moreover, due to the dynamic nature of economic life, the pattern of the economic structure is not uniform, and both price and wage differentials, as well as many others, exist within the bounds of a national economy.

The incidence of the wholesaling institution upon real incomes is not an obvious one, however real it may be. In the first place, there is the question of the relative size of the money incomes, the first determinant of real income, derived from engaging in wholesale trading activities. The average employee engaged in wholesale merchandising in 1929 received an income of $1,875. This figure compares with an average of $1,312

for retail employees and $1,315 for industrial or manufacturing workers.[26] While these figures do not afford an accurate gauge of average wages due to numerous statistical complications, they at least indicate a differential in income levels, and that money incomes derived from wholesaling compare very favorably with those secured from other departments of economic life. This statement is supported by a comparison between per capita income in wholesale trade with the cost of living index of the Bureau of Labor statistics. Between 1929 and 1932 per capita income for employees engaged in wholesale trade declined to 84.7 or by 15.3 points. The cost of living index shows a decline of 19.6 points over the same period, which indicates that wholesaling activities provided relatively greater real incomes in 1932 than in 1929.[27]

Wholesaling as a Part of the Price-Making Mechanism.[28]—The second element in determination of real income is the prices of commodities and services. How does the wholesaling structure influence this phase of income distribution? It is impossible to answer this question fully at this point. Suffice it to say that the wholesale market structure has long been the focal point for the economic forces of demand and supply which determine prices. A separate chapter (Chapter 22) is devoted to the subject of wholesale prices, but at this point, in order to complete the picture of the influence of wholesale distribution upon economic distribution, it should be pointed out that prices in general, and prices of individual commodities, tend to be lower as a result of efficient specialization in the performance of essential wholesale activities than they would be in the absence of such a system. This assumes, for the time being, that the existing wholesale structure is reasonably efficient.[29] If this assumption is true, the conclusion must be that the wholesaling institutions tend to increase real incomes by contributing to lower commodity prices than a less efficient marketing structure might generate.

[26] See Chapter 23 for more detailed discussion of wages and salaries.
[27] National Income—1929-1932, U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, p. 114. Senate Document No. 124, 1934.
[28] See Chapter 22 for a more complete discussion of wholesale prices and pricing policies
[29] See Chapter 25 for an analysis of the efficiency of the wholesaling structure.

Wholesaling and Economic Consumption.—A problem closely related to that above is the influence of wholesaling activities upon the consumption of wealth. Since consumption of wealth is the process whereby man satisfies his wants for economic goods and services, it may be considered, at least from a social viewpoint, as the consummation of economic activity, the goal of all productive effort. The wholesaling mechanism is one of the specialized devices which plays an important rôle in the consumption of wealth. In so far as this mechanism facilitates a smoother flow of goods from producer to consumer and contributes towards a larger flow the consumption of wealth is stimulated. The importance of the wholesaling system lies in the fact that it aids in interpreting the consumer's wants for the producer. The wholesaling structure is one stage removed from the consumer, it is true, but this position is a strategic one for appraising his wants. The retailer who is in immediate contact with the consumers in his community is an important agent in securing their reactions. Indeed, he may be likened to the sensitive tentacles of an organism, receiving the stimuli of consumer demand and transmitting them to the wholesaler who, like the nerve center or ganglion, receives the impulses and transmits them in turn to the producer. Wholesale distributors are in a much better position to measure consumer wants since they receive the reactions of a large number of retailers, and are not apt to be misled by sporadic but ephemeral demands focusing on a single retail outlet. Their success depends upon correctly interpreting, even anticipating, trends in consumer demands. Thus ample supplies are normally available for the consumer as a result of the unceasing activity of the wholesaling organizations.

General Conclusions.—It has been shown that wholesaling activities consist of economic functions which are inherent in embryonic form in the simplest economic life. They grow in importance with the development of specialization and flower in numerous specialized institutions in an advanced economy. These functions are productive in that they contribute to the

satisfaction of economic wants. In brief they consist in the creation of time, place, and ownership utilities.

Wholesaling institutions contribute to the distribution of incomes directly by paying wages, rent, and interest, and by providing profits to their successful owners. Indirectly, wholesaling helps to determine real incomes through the influence it exerts upon commodity prices. Moreover, it is in the wholesale market that forces of demand and supply focus and prices are determined. In fact, these forces tend to operate more nearly in accordance with the postulates of competitive price theory in wholesale markets than elsewhere.

The wants of consumers are satisfied in proportion as they are promptly known to producers and the desired goods quickly moved through the marketing channels. The wholesaling structure performs the service of collecting information about consumer wants and transmitting such information in the form of orders to primary producers. The second condition is also fulfilled by the facilitating activities of the wholesaling institutions which assemble and distribute to the retail outlets the goods wanted by the consumer. The provision of surplus stocks by wholesale establishments makes possible a speedy satisfaction of wants through quick delivery to retail stores.

The wholesale distribution structure thus proves to be an invaluable part of the economic machine. In so far as it performs essential economic functions effectively, it contributes to a more efficient production of wealth, to a larger distribution of income, to a smoother determination of prices, and to a more complete satisfaction of consumer wants.

PART II—MODERN WHOLESALING SYSTEMS

CHAPTER 6

THE WHOLESALING STRUCTURE IN THE UNITED STATES

The first five chapters, comprising Part I of this volume, have provided the historical background of the economic mechanism of wholesaling. The nature and economic functions of wholesaling have been presented in an evolutionary setting. The unfoldment of this essential part of the economic structure has been traced from its crude inception in the exchange processes of primitive civilizations to its elaborate and complex flowering in the great marts of the modern world. In this chapter and those which follow in Part II, an examination will be made of the wholesaling structure as it exists in the United States and in other parts of the world today. The immediate chapter deals with the general aspects of the wholesaling structure in the United States, while a discussion of its more important component parts, and of wholesaling abroad is left for succeeding chapters.

The Wholesaling Structure Defined.—The wholesaling structure or mechanism may be defined as that complex of business establishments, which, like the cilia in certain parts of the human organism, are constantly functioning to move the products of industry through the channels of trade from primary producers to the retail outlets or to industrial consumers. This is clearly a broad and comprehensive definition. It includes all public and private agencies (except the specialized service agencies noted below) which contribute, as their major activity, either to the physical flow of merchandise or to change in ownership up to the point where the goods reach the hands of retailers or industrial users.

From the broadest viewpoint the wholesaling structure of the United States embraces all non-specialized marketing activities of farmers, mine operators, lumbering concerns, fisheries, oil well companies, and manufacturers, except the relatively small volume of sales which these producers make directly to household consumers. It includes the activities of the multitude of agents, brokers, assemblers, and other types of wholesale middlemen who function *between* the producers and the better known types of wholesale distributors and merchants. It includes, of course, the operations of the so-called *regular* wholesalers, who take title to the goods in which they deal, and also the work of industrial distributors, of exporters and importers, as well as the activities of such wholesale dealers as cash-and-carry wholesalers and wagon distributors who specialize in selected functions. To the above activities must be added the work of the specialized wholesaling divisions, departments, or warehouses which are integral parts of manufacturing, refining, and retailing businesses. Among these types of wholesaling establishments, which must not be confused with the non-specialized wholesaling activities above mentioned, are the wholesale branch houses of manufacturers, the bulk tank stations of petroleum refiners, and the warehouses maintained by retail chain systems, department stores, and mail-order houses. The cooperative movement also contributes to the scope of the wholesaling structure in the United States. For example, the wholesale units of consumer cooperative organizations, the wholesale divisions of cooperative groups of retailers, and the wholesaling activities of agricultural cooperatives, all are a part of the great wholesale marketing structure now operating in this country.

The discussion of the wholesaling structure as herein contemplated excludes the specialized service agencies which facilitate the wholesale marketing process. The transportation system, including rail, water, truck, pipe line, and air transport, while performing wholesale distribution functions and for that reason theoretically part of the wholesaling *process,* is excluded from a consideration as part of the wholesaling *structure* proper, partly because it does not confine itself exclusively to whole-

saling functions, but primarily because it is sufficiently differentiated from other economic activities to justify separate treatment. The communications system, including the mail, express, telephone, telegraph, cable and the radio, is similarly excluded as are the highly specialized financial institutions such as the commercial banks, savings banks, investment houses, and insurance companies. Storage and warehousing concerns, as specialized wholesaling agencies, are excluded from this examination of the scope of the wholesaling structure, or are accorded but incidental treatment, not because they are not an integral part of the system, but because they are adequately treated elsewhere and lack of space prevents elaboration here.[1] The student of wholesaling should not ignore any of these institutions, however, because some of them perform essential wholesale marketing functions and a full understanding of the subject must embrace them all.

Value of Goods Distributed at Wholesale.—The wholesaling structure as outlined in the preceding paragraphs does not lend itself easily to quantitative measurement. As indicated in Chapter 4, essential data are lacking for an adequate statistical appraisal of wholesaling in its broadest aspects. It is possible, however, to measure the more specialized wholesaling activities quite accurately, and from various sources to gain a fairly adequate conception of the extent of the entire field. Table 7 provides reasonably accurate estimates of the total volume of wholesaling activity measured in terms of money value of goods distributed at wholesale during the years 1933 and 1929, for which comparable data are available.[2] During 1929, the total volume of goods sold at wholesale amounted to nearly $84 billions f.o.b. point of production. By 1933 the corresponding figure, due to the depression, had fallen to less than $39 billions. These goods, apart from the imports from abroad, came from the factories, farms, mines and quarries, and forests of the United States, or represented the products of fishing, hunting, and trapping. Of the total amount of goods which

1 "Warehousing" by H. A. Haring, New York, The Ronald Press Co., 1925, covers this subject.
2 See also Table 4.

TABLE 7. TOTAL VALUE OF GOODS DISTRIBUTED AT WHOLESALE, BY SOURCES: 1929 AND 1933

(Values f o.b. point of production or importation in thousands of dollars)

	1929	1933
Gross value of manufactured goods	$69,960,910[a]	$31,478,183[a]
Less receipts from contract work, services and interplant transfers	7,529,767[b]	3,384,000[b]
Net value of manufactured goods distributed by manufacturers	62,431,143	28,094,183
Value of goods manufactured by wholesale establishments	1,183,023[c]	532,360[c]
Value of goods mfd. by retail establishments	316,279[d]	142,326[d]
Total value of mfd. goods distributed	63,930,445	28,768,869
Agricultural production (cash income)	10,146,720[f]	4,981,846[e]
Value of products of mines and quarries	2,392,650[h]	1,959,000[g]
Value of crude petroleum production	1,280,417[j]	606,789[i]
Value of forest products[k]	1,100,000	700,000
Value of fishery products (not manufactured)[l]	105,970	60,218
Value of products from hunt'g and fish'g (est.)	20,000	8,875
Total value of goods produced in U. S. for sale	78,976,202	37,085,597
Value of goods imported[m]	4,924,000	1,717,000
Total value of goods distributed on a wholesale basis[n]	83,900,202	38,802,597
Value of goods exported including re-exports[m]	5,241,000	1,675,000
Value of goods distributed at wholesale in the domestic market	78,659,202	37,127,597

[a] Census of Manufactures, U. S. Bureau of the Census.

[b] For the year 1929 data were collected by the Census of Manufactures showing that $3,542,014,000 consisted of receipts from contract and repair work, $2,385,793,000 represented interplant transfers and $1,601,960,000 were in the form of receipts from service industries. For 1933 the amounts for these items were obtained by applying reported ratios as of 1929 to the value of products by industries for 1933. To the 1933 figure has been added the value of motion picture production in order to make the data comparable with 1929. Thus, the estimated receipts from contract and repair work for 1933 were $1,798,000,000, for interplant transfers the figure was $917,000,000 and for receipts from service industries the amount was $669,000,000.

[c] For 1929 the data are given in the Census of Wholesale Distribution. The 1933 figure was obtained by applying the per cent decrease, 1929-1933, in value of products reported by the Census of Manufactures, to the reported amount of goods manufactured in wholesale establishments during 1929.

[d] For 1929 the data are given in the Census of Retail Distribution. The 1933 figure was obtained by applying the per cent decrease, 1929-1933, in value of products reported by the Census of Manufactures, to the reported amount of goods manufactured in retail establishments during 1929.

[e] Bureau of Agricultural Economics, Department of Agriculture.

[f] Yearbook of Agriculture 1931, p. 977.

[g] Minerals Yearbook 1934. [h] Census of Mines and Quarries, Bur. of the Census.

[i] Estimated on the basis of data furnished by the Petroleum Administration Board.

[j] Bureau of Mines, Department of the Interior.

[k] Census of Manufactures, Bureau of the Census. [l] Bur. of Fisheries, Dept. of Com.

[m] Bureau of Foreign and Domestic Commerce, Department of Commerce.

[n] These figures are approximations of the gross volume of wholesaling in the U. S. in the broadest sense of the term wholesaling as explained in Chapter 2. They should be modified by the amounts sold directly to home consumers by producers. In 1929 manufacturers sold 1.7% of their total volume in this fashion. Data are not available for 1933, neither are data available for other producers. However, even in such direct selling the producer does not eliminate the wholesaling functions but rather combines them with retailing. Hence the gross figures given above are legitimate estimates of the gross volume of wholesaling at point of production or on the threshold of the distribution structure before marketing costs have been incurred and exclusive of duplication.

entered the market in 1929, 76.2% were manufactured in the United States either in factories or in wholesale and retail establishments, 12.1% came from the farms, 2.9% were products of mines and quarries, 1.5% consisted of crude petroleum, 1.3% came from the forests, 0.1% from fishing, .02% from hunting and trapping, and 5.9% of the goods were imported. Only 6.2% of these goods were exported to foreign countries, the remainder being distributed in the United States.

The situation was not radically different in 1933, a year of deep depression as compared with 1929. During 1933, manufactured goods represented 74.1% of all goods marketed, farm products contributed 12.8%, the products of mines and quarries accounted for 5%, crude petroleum made up 1.6% of the total, products of the forests added another 1.8%, the products of hunting and trapping retained the same proportionate share, and the products of the fishing industries 0.2% of all goods sold during the year. Imports and exports both declined slightly; consequently, the domestic market absorbed in 1933 a larger share of the total value than in 1929, the percentages being 95.7 and 93.8, respectively. Thus it appears that approximately 97% of the value of all goods produced in the United States and imported from abroad passes through the wholesaling process, although the physical volume of goods handled may differ from this ratio, as indicated in Chapter 4, Table 5, because of the fluctuations in the level of prices which may influence the value figures without changing the physical volume either to the same degree or in the same direction.

Confusing Statistics.—The variation in the statistical measures presented in this and other chapters for the total volume of wholesale trade may confuse the unwary reader. There is no real basis for confusion, however, if the student will keep in mind the three concepts of wholesaling, which were developed in Chapter 2, namely, wholesaling broadly conceived, the narrow view, and the middle view. As was indicated in the earlier chapter, the broad view of wholesaling is the most significant for a thorough understanding of this phase of marketing. The largest body of statistics now available, however, was collected

by the Census Bureau on the basis of the middle view which was dictated, as noted in Chapter 2, by the expediency of practical limitations. These facts dictate to some extent the manner of presentation of the statistical material and limit its utility. While these census data have been used as a foundation for most of the statistics on wholesaling presented in this treatise, whenever possible they have been supplemented by the use of additional information. This was done, for example, in Table 7, in which the authors have attempted to measure the net dollar volume of wholesaling, in the broadest sense of the term, for the years 1929 and 1933. The statistics for earlier and later years presented in yearly aggregates and in indexes in Tables 4 and 5 are also based upon this broad concept of the wholesaling structure, although the data in all of these tables are evaluated at the point of production and hence do not include costs of wholesaling incurred beyond that point. This was done to secure comparability of the data and to avoid serious duplication in the figures. On this basis the total volume of wholesale trade in 1929 is estimated at $83,900 millions, while the total volume of that part of wholesale trade included in the census definition was $68,950 millions, and total wholesale sales of *wholesalers proper*, the narrowest concept of the term, was reported by the census at $29,232 millions.

There are other pitfalls in these data which must be guarded against by the careful user. In the first place, the figure, $83,900 millions, is a *net* figure in that all duplication, such as interplant transfers and sales from one plant to another, has been eliminated from the calculation in so far as possible. Since this figure is also an f.o.b. point of production or importation amount, it therefore contains no margin for transportation or other distribution costs beyond those incurred before shipment of the goods. In contrast the second figure, $68,950 millions, is not a net figure. It is smaller than the first, not because duplication is eliminated, but because it measures a limited part of the field. There is, in fact, a considerable amount of duplication because of the inclusion of the sales of brokers, agents, and similar middlemen who sell largely to other wholesale agencies. In other words, since all specialized wholesaling agencies have been in-

cluded there is in this figure a certain amount of double-counting. Unlike the first total, this figure includes transportation costs and wholesale distribution margins, and is based on the actual selling price of the goods sold by the wholesale distributors, whereas the first figure was based on values at an earlier stage in the marketing process. The third figure, $29,232 millions, which measures a still smaller portion of the field, includes very little duplication but is likewise based on the wholesale sales prices of the goods sold.

There remains still another way of measuring the volume of wholesaling which has validity for certain purposes such as taxation and as a gauge of wholesaling activity, and that is the measurement of the total volume of wholesale *transactions* or turnover. In this method duplication is of no interest, because the object is to ascertain the combined wholesale sales made at every point in the marketing channel, from the time the goods leave the primary producers until they reach the consumers. This total can be built up from available statistics. For example, in 1929 the various wholesale establishments reported an annual business of $68,950 millions. To this may be added the $18,759 millions worth of goods sold by manufacturers to wholesalers, since this group of transactions constitutes one step in the wholesaling process. Furthermore, the $11,777 millions worth of goods sold by manufacturers direct to retailers, and the $19,850 millions worth of merchandise sold by manufacturers directly to industrial consumers should be included for the same reason. In addition there must be added $10,147 millions worth of farm products which farmers sold into the wholesale stream; an estimated $4,500 millions of direct imports; and the nearly $5 billions worth of products of other industries as shown in Table 7. This brings the total figure for wholesale transactions in 1929 to nearly $139 billions.

The corresponding figure for the total volume of wholesale transactions can in like manner be estimated for 1933. For this year the wholesale establishments covered by the Census of American Business reported $32,151 millions worth of business. No data were collected showing the distribution of goods by manufacturers for 1933; however, on the basis of computa-

tions made by the authors, it is estimated that manufacturers sold directly to retailers goods valued at $5,383 millions, and that they also sold directly from their plants to industrial consumers goods amounting to $7,807 millions, and to wholesalers a total of $8,987 millions worth of commodities. The value of farm products, of forest products, minerals and fisheries plus an estimated $1,549 millions of direct imports swell this total by some $9,866 millions to a grand total of nearly $64 billions as a measure of the volume of wholesale *transactions* for this year.

Wholesaling Compared with Retailing.—The foregoing discussion of the various measurements of wholesaling should help to clarify the apparent discrepancies between wholesaling and retailing statistics.[3] There is, for example, the common belief that since retailing is the last stage in the marketing process, the volume of retailing transactions should be larger than the volume of wholesaling trade, because the final marketing mark-ups are included in the retail sales prices. There are, however, several reasons why there is no close correspondence between the wholesaling and retailing statistics. In the first place, wholesaling in its narrowest sense is restricted to only a part of the sources which sell to retailers. Retail trade is supplied from a great many sources, including manufacturers and farmers, as well as a great variety of wholesale middlemen and distributors; and it is therefore difficult to define and impossible to measure that segment of wholesaling which caters exclusively to the retail trade.

On the other hand, wholesaling, considered either from the broad or from the middle point of view, is much more than a feeder to retailing. For one thing it includes sales of industrial goods which do not generally go through retail channels. In 1929 no less than 31.3% of all goods sold by manufacturers were direct from factory to industrial users, which is a wholesaling operation. To this must be added another 13.5% of all manufactured goods sold during the year which reached industrial consumers through wholesalers, industrial distributors, and

[3] As has been pointed out, in 1929 wholesale trade amounted to $84 billions taken in its broad sense, or to $69 billions in its middle sense, while retail trade, including direct sales by producers, totaled only $52 billions.

through manufacturers' own wholesale branches. This does not include the amount of goods coming from the farms, mines and quarries, forests, etc., which were destined for industrial consumption. During 1933, when more adequate statistics were available on this point, 28.8% of all sales made by wholesale organizations of all kinds were made to industrial users. None of these figures are, of course, included in the reported retail sales statistics. A second factor which helps to explain the discrepancy between wholesale and retail trade volumes is the fact that wholesale trade includes a certain amount of export business which again does not go through retail stores in this country, and is, therefore, not counted in the retail volume of business. In 1933 this export trade amounted to something like $1,675 millions. Still another factor is that the volume of wholesale trade includes a large amount of duplication growing out of sales by one wholesale organization to another.[4] The sales of both organizations are included in the totals, hence the sale of a given amount of merchandise is counted twice. During 1933 the amount of duplication included in the $32,151 millions of wholesale business reported to the Census of the American Business was 16.8%. Little or no such duplication is possible in retail store business, for when an item is finally sold to an ultimate consumer it disappears from commerce unless it turns up again in the form of the rather limited amount of secondhand merchandise.

The Flow of Goods Through Wholesale Channels.—Following the above discussion of the quantitative aspects of the total volume of wholesaling it seems logical next to examine more closely the channels through which wholesale trade flows. Perhaps the first step in this analysis is to consider the sources of supply, or the feeders, so to speak, of the wholesale distribution structure. For non-manufactured goods, of course, the farms constitute one of the main sources. In 1929 there were some six million farms in the United States, most of which, as indicated above, poured their products, amounting in the aggregate to over $10 billions, into wholesaling channels. Other

[4] That the practice of selling by one wholesale organization to another is rather common, particularly among agents and brokers, is apparent from an examination of Table 9.

sources of supply are the mines and quarries; the fishing, logging, lumbering industries; hunting and trapping. No definite information is available on the number of logging and lumbering concerns in the United States, nor on the numbers engaged in hunting and trapping. There are, however, reliable data on other parts of the country's productive sources. In 1929, for

TABLE 8. DISTRIBUTION OF SALES, 1929 AND 1933, OF MANUFACTURING PLANTS IN THE UNITED STATES

(Selling value f.o.b. factory expressed in thousands of dollars)

Channels	1929 [a]		1933 [b]	
	Amount	Per Cent of Total	Amount	Per Cent of Total
Total goods distributed by manufacturers....	$63,409,200	100.0	$28,088,000	100.0
Sales to wholesalers........	18,759,293	29.6	8,987,000	32.0
Sales to manufacturers' own wholesale branches.......	10,237,077	16.1	4,489,000	16.0
Sales to retailers and to manufacturers' own retail branches................	13,009,588	20.5	6,008,000	21.3
Sales to industrial and other large consumers..........	19,849,875	31.3	7,807,000	27.8
Sales to home consumers....	1,553,367	2.5	797,000	2.9

[a] Fifteenth Census of the United States, Distribution, Vol. II, p. 6.

[b] With certain exceptions figures in this column were obtained by applying the 1929 ratios (see Distribution of Sales of Manufacturing Plants, Fifteenth Census of the United States, by Industries) to the 1933 production figures. In order to simplify the work the calculations were made in millions of dollars. For certain industries, for example, cigar boxes, electric cars, manufactured ice, locomotives, pencils, and motion pictures, distribution was made on the basis of unpublished records of the Bureau of the Census. Information by channels for a number of smaller industries not reporting separately in 1929 was obtained by applying the 1929 "all other industries" ratio to the 1933 production figures. This group included among others, graphite, ground and refined; hats, wool felt, wool pulling, etc. Distribution of sales for breweries and distilleries is based upon estimates furnished by the Federal Alcoholic Control Board checked against available Census data.

example, there were over 12,500 mines and quarries reported by the Bureau of the Census; and in 1932 there were some 117,000 fishermen operating over 72,000 fishing boats and vessels. The total volume of production of these other sources of supply is estimated at nearly $5 billions for 1929 (Table 7).[5]

[5] Statistical Abstract of the United States, 1934, pp. 540, 651, 656.

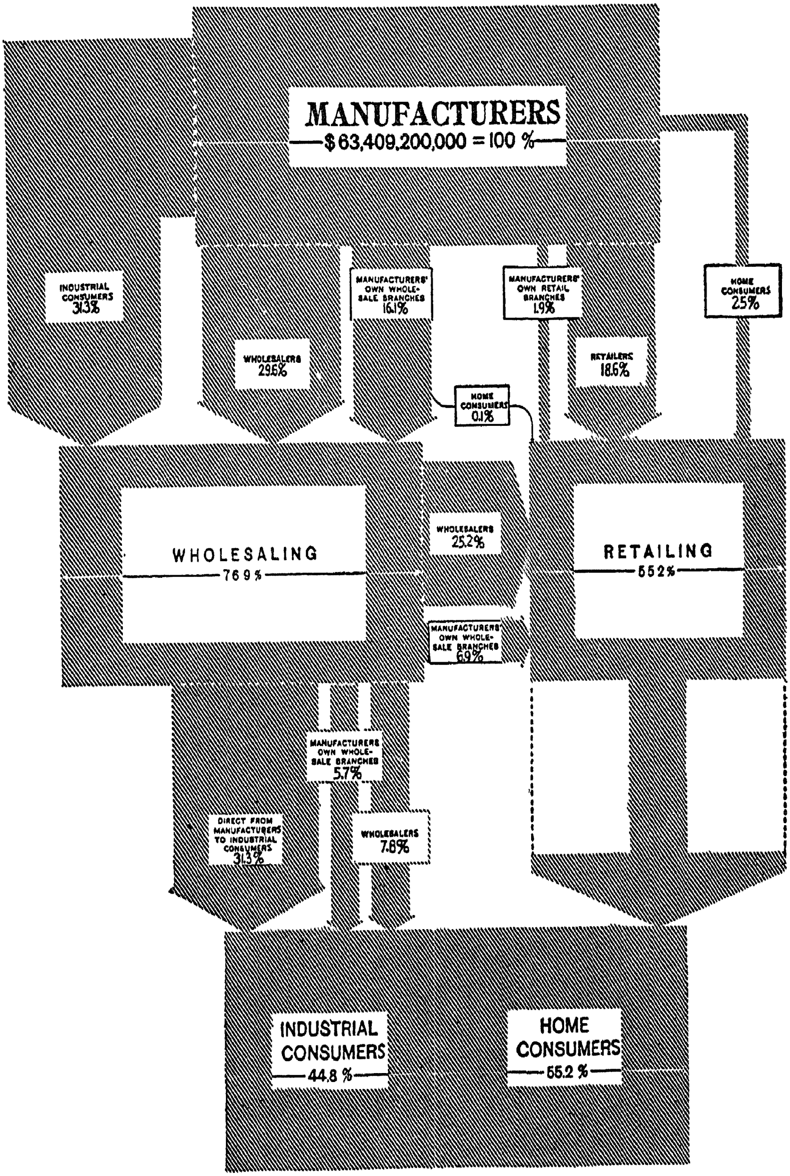

Figure 2. Flow of Goods from Manufacturer to Consumer: 1929

In the same year the total number of manufacturing establishments was 209,862.[6] These manufacturers were asked to report on their sales channels. Out of the total all but 31,648 supplied this information which furnishes the only statistical basis now available for measuring the first step in the distribution of manufactured goods. Most manufacturers indicated that they either utilized wholesale distributors or did their own wholesaling. Less than 23,000 plants reported that they sold exclusively at retail to household consumers.[7] Table 8 indicates the distribution of sales made by manufacturers during 1929 as reported to the Census Bureau and for 1933 as estimated by the authors. It is unfortunate that the Bureau of the Census has not yet taken steps to secure comparable data in the field of agriculture and for mines and quarries, but the awakening realization of the significance of marketing to the national economy should undoubtedly bring about the inclusion of essential data on wholesaling in all major census projects of the future.

Based upon the data supplied by the manufacturers and upon other facts supplied to the Census of Wholesale Distribution for the year 1929, the authors prepared a chart (see Figure 2), showing the flow of goods from manufacturers to consumers. This chart was originally published by the Bureau of the Census in its summary of wholesale distribution and in volume II of the first Census of Distribution. A similar chart was prepared for 1933 (see Figure 3).[8] In this manner it is possible, at least approximately if not accurately, to indicate the flow of manufactured goods from points of production to points of consumption, to note the changes made in the relative importance of the wholesaling and retailing channels through which goods flow during a period of economic stress, and to determine the relative significance of the industrial consumer market in relation to the home or ultimate consumer market for which manufactured goods are destined.

A more comprehensive view of the flow of goods *after* they reach wholesaling channels may be gained from an examination

[6] This number had dropped to 141,776 by 1933. Census of Manufactures; 1933, Summary by Industries, Jan. 23, 1935.

[7] Fifteenth Census of the United States, "Distribution of Sales of Manufacturing Plants," Distribution—No. IG-202, Table I, U. S. Government Printing Office, 1932.

[8] In the preparation of Figure 3 much valuable assistance was given by John Albright, Assistant Chief, Wholesale Trade, Census of Business, Bureau of the Census.

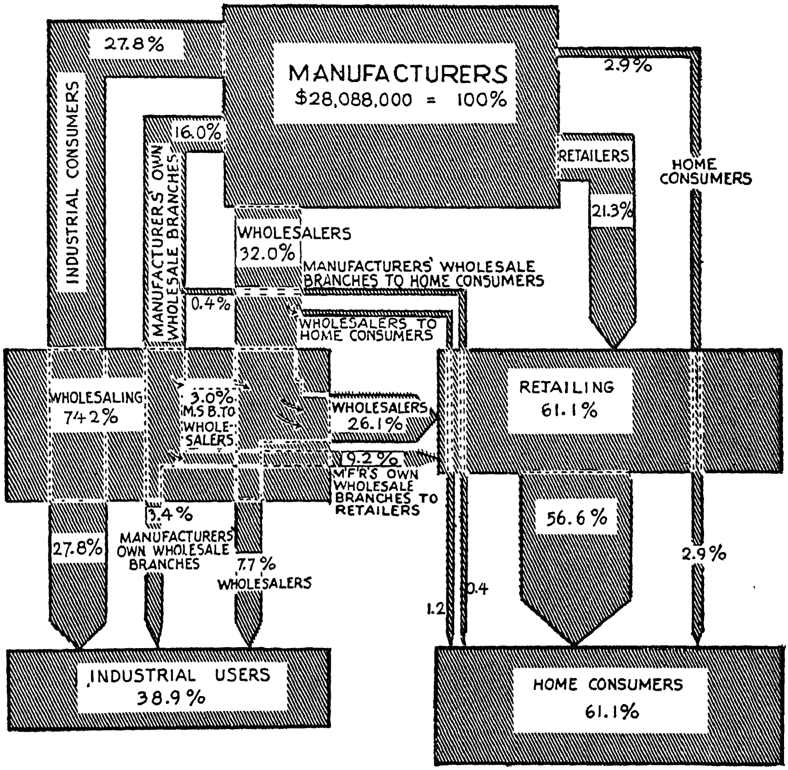

Figure 3. Flow of Goods from Manufacturer to Consumer: 1933

of the data in Table 9 and from Figure 4. The significance of these data lies in the fact that for the first time it is possible to determine the extent to which retailers are supplied with goods from different wholesaling sources, and the extent to which the

TABLE 9. OUTLETS SERVED BY WHOLESALE ESTABLISHMENTS—UNITED STATES: 1933[a]

(Values expressed in thousands of dollars)

Type of Establishment	Net Sales	Per Cent of Total Sales of Each Type Made			
		To Retailers for Resale	To Home Consumers	To Industrial Users	To Other Wholesale Organizations
Total	$32,151,373	52.2	2.2	28.8	16.8
Wholesalers proper	12,997,276	63.4	3.2	26.8	6.6
Wholesale merchants	11,302,947	67.2	3.5	23.6	5.7
Exporters	558,147	11.2	[b]	63.9	24.9
Importers	776,354	31.4	.6	56.0	12.0
Limited function wholesalers	359,828	71.7	2.6	20.2	5.5
Manufacturers' sales branches	7,557,363	46.4	1.2	30.4	22.0
With stocks	5,144,688	53.1	1.5	23.8	21.6
Without stocks	2,412,675	27.3	.6	49.0	23.1
Bulk-tank stations	1,888,675	76.7	7.6	9.4	6.3
Chain-store warehouses	1,431,563	82.7	.1	.2	17.0
Agents and brokers	6,502,375	26.1	.2	41.2	32 5
Brokers	2,088,370	13.9	.1	32.2	53.8
Commission merchants	2,224,864	27.9	.1	49.6	22.4
Export agents	135,126	21.2	.3	61.5	17.0
Import agents	50,541	11 4	.3	72.5	15.8
Manufacturers' agents	573,964	40.5	.7	40.3	18.5
Selling agents	988,401	26.6	.2	48.9	24.3
Other agents	441,109	63.3	.4	20.0	16.3
Assemblers and country buyers	1,774,121	30.3	4.1	33.9	31.7
Assemblers of farm products	718,588	30.3	2.1	32.4	35.2
Cooperative marketing associations	686,072	40 5	2.9	27.7	28.9
Cream stations	31,459	10 8	2 6	59 2	27.4
Elevators	338,002	11.7	11 0	47.9	29.4

[a] The percentages are based on the number of establishments reporting sales by type of customer consisting of 81.8% of the establishments doing 81.7% of the business. It is assumed that the same percentage distribution would hold for those not reporting on this item. Census of American Business, Wholesale Distribution, Vol. I, Table 5.
[b] Less than .05%.

various types of wholesale organizations serve industrial consumers, home consumers, and other wholesale agencies. Their import is further accentuated by the numerous false conceptions

which they tend to correct. Few people, indeed, counting among them many business men and marketing students, have in the past realized to what degree agents and brokers serve retailers and industrial consumers. It has been taken for granted that the business of such agents and brokers represents in its entirety duplication in the field of wholesaling, on the assumption that

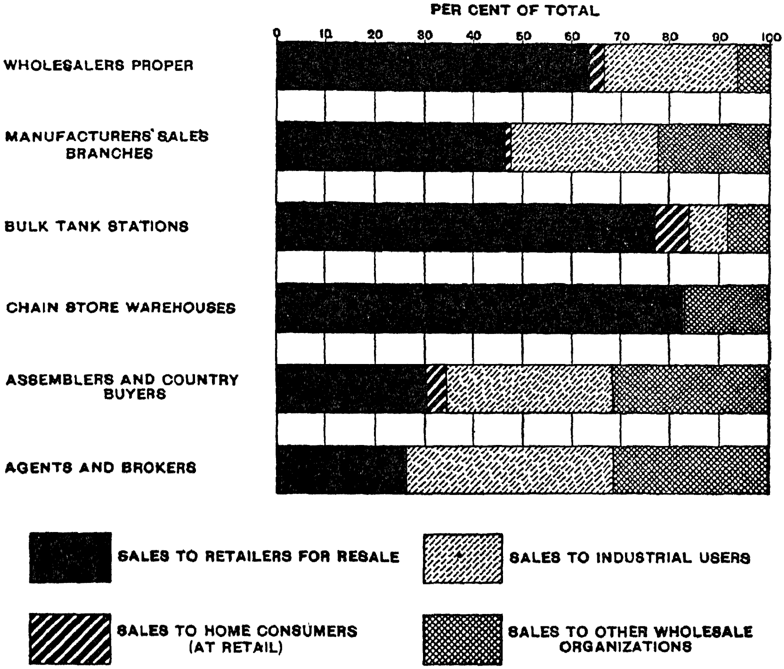

Figure 4. Outlets Served by Wholesale Establishments—United States: 1933

such organizations operate entirely between producers on the one hand and wholesalers on the other. The facts reveal that this is true of less than a third of the business of such agents. Similarly, few people have realized to what extent manufacturers' sales branches sell to other wholesale organizations or direct to retailers; nor has there been a clear conception of the tremendous amounts of farm produce sold by assemblers and country buyers direct to retailers. Such misconceptions are

gradually dissolved by increased information, and in their place arises a better understanding and keener appreciation of the wholesaling structure as it now exists in the United States.

Types of Wholesale Establishments.—Fortunately there are ample data now available on that part of the wholesaling structure which is comprised of separate wholesaling establishments. This major segment of the wholesaling structure, which may be called the *organized wholesaling mechanism* of the United States, has been thrice canvassed by the Census Bureau. In the year 1929 there were 169,654 specialized wholesaling establishments within the confines of continental United States. These included the regular wholesalers so-called or *wholesalers proper, manufacturers' wholesale branches, bulk tank stations, chain store warehouses, assemblers and country buyers,* and *agents and brokers.* This large group of wholesale middlemen and agencies reported a total net sales volume of nearly $69 billions in 1929. By the year 1933 the number of comparable wholesale establishments had declined by the small amount of 3.2% to 164,170. Dollar sales dropped much more heavily, declining to $32 billions or by 53.4%. The actual physical volume of wholesale transactions handled by these business units did not decline so greatly since the fall in wholesale prices between 1929 and 1933 amounted to nearly 31%. The net decline in wholesale trade was therefore about 33% in terms of actual goods handled.[9] For 1935 the volume of trade reported by the 176,000 wholesale establishments exclusive of chain store warehouses was $42.5 billions, an increase over 1933 by more than 40%.[10]

Table 10 and Figure 5 show the relative number and sales volume of the various types of wholesale establishments in the United States. Wholesalers proper were the most numerous of any single type of wholesale establishment in both 1929 and 1933. They were, moreover, responsible for the largest pro-

[9] Net sales for 1929 were $68,950,108,000, equivalent to $72,350,000,000 at 1926 price levels, since the index number for wholesale prices in 1929 was 95.3 of the 1926 base. Net sales for 1933 were $32,151,373,000, equivalent to $48,788.000,000 at 1926 price levels, since the wholesale price index in 1933 was 65.9 of the 1926 level. On this comparable basis the decline in wholesale trade was 32.6%. Bureau of Labor Statistics wholesale price indexes used for this computation were taken from Statistical Abstract of the United States, 1934, p. 283.

[10] For essential data on wholesale trade for 1935, see Appendix E.

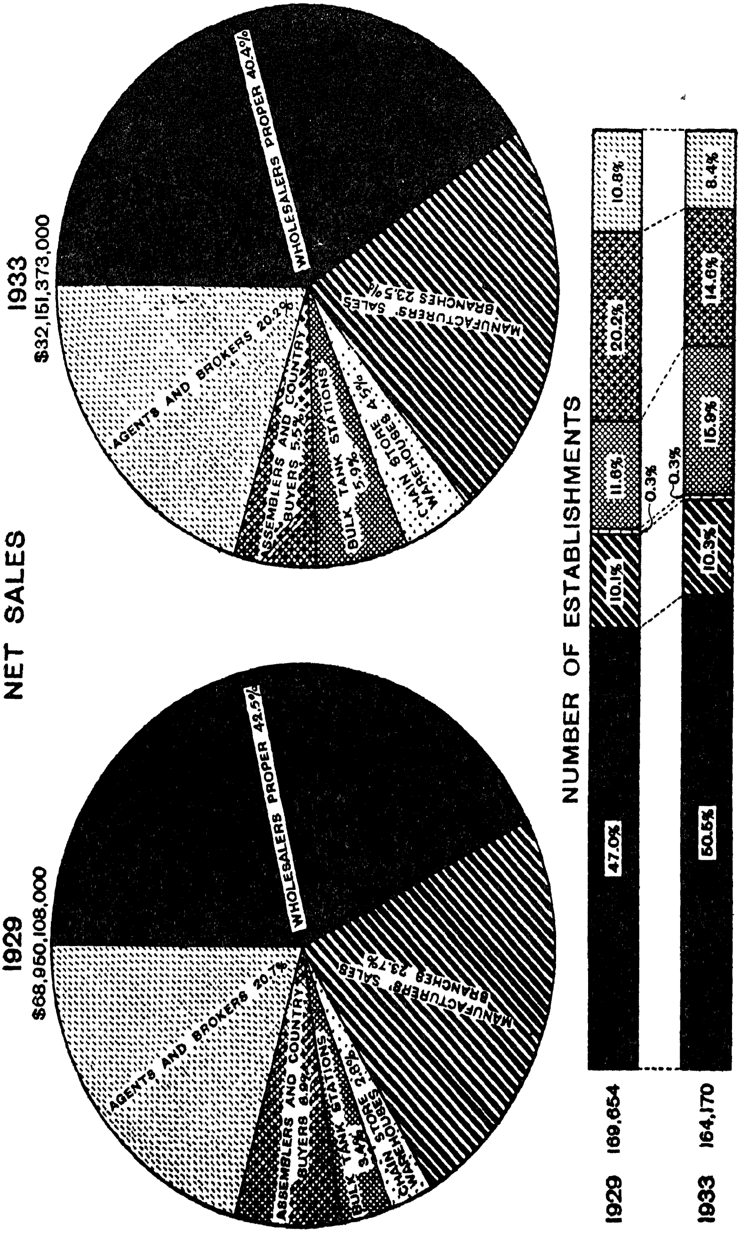

Figure 5. Wholesale Trade, by Type of Establishment: 1929 and 1933

portion of the total volume of business in each of the two years. Manufacturers' sales branches ranked second in importance in both years when measured in volume of sales. In terms of numbers, however, they were not so important, holding but fifth place in 1929 and fourth in 1933. Agents and brokers ranked next below manufacturers' sales branches in volume of business

TABLE 10. THE WHOLESALING STRUCTURE AS REFLECTED BY THE VARIOUS TYPES OF WHOLESALE ESTABLISHMENTS—UNITED STATES: 1929, 1933 AND 1935[a]

Type of Establishment	Number of Establishments			Net Sales Per Cent of Total		
	1929	1933	1935	1929	1933	1935
Total	169,654	164,170	176,062	100.0	100.0	100.0
Wholesalers proper[b]	79,784	82,865	88,723	42.5	40 4	41.4
Wholesale merchants	74,476	76,856	80,340	36.8	35.2	36.0
Exporters	754	453	503	2.2	1 7	1 2
Importers	2,262	2,176	2,237	2.6	2 4	2.5
Limited function wholesalers	2,292	3,380	5,643	9	1 1	1.7
Manufacturers' sales branches[c]	17,086	16,873	15,794	23.7	23 5	26 1
With stocks	[d]	12.444	11,640	[d]	16.0	17.5
Without stocks	[d]	4,429	4,154	[d]	7 5	8.6
Bulktank stations	19,611	26,190	26,977	3.4	5.9	6.3
Chainstore warehouses	559	462	......	2 8	4.5	[e]
Assemblers and country buyers	34,226	23,962	26,492	6.9	5 5	6.0
Assemblers of farm products	21,884	11,283	12,317	3.4	2 2	2.1
Cooperative marketing ass'ns[b]	4,208	2,732	2,102	2.1	2.1	2.3
Cream stations	[d]	2,860	3,620	[d]	.1	.1
Elevators[e]	8,134	7,087	8,453	1.4	1.1	1.5
Agents and brokers	18,388	13,818	18,076	20.7	20.2	20.2
Brokers	3,689	3,414	3,882	5.8	6 5	6.2
Commission merchants	3,479	3,128	3,130	6.8	6.8	6.1
Export agents	260	240	493	.6	.4	.7
Import agents	85	179	333	.1	.2	.5
Manufacturers' agents	6,987	4,972	7,545	2.6	1.8	1.8
Selling agents	3,260	1,235	1,708	3.8	3.1	3.4
Other agents	628	650	985	1.0	1.4	1.5

[a] From Wholesale Distribution, Vol. I, Table 1, Census of American Business, May, 1935 and Wholesale Distribution, U. S. Summary, Nov. 1936.

[b] Due to additional information which was not available at the time the previous census was taken, the 1929 data have been corrected for certain changes in classification.

[c] For comparison purposes wholesaling manufacturers and district and general sales offices, except those dealing in petroleum and its products, have been included in manufacturers' sales branches, 1929.

[d] 1929 equivalent not available.

[e] For some unaccountable reason, chain store warehouses are reported for 1935 as part of the retail census, although formerly they were properly included in the wholesale field.

[f] Includes 1,438 cooperative elevators with net sales amounting to $88,193,000.

for both 1929 and 1933 but were fourth and fifth respectively in number of establishments, outranking manufacturers' sales branches slightly in 1929 and yielding to them in 1933. Assem-

blers and country buyers of farm products were second only to wholesalers proper in numbers in 1929, but had dropped to third place in 1933. They occupied fourth and fifth places respectively in sales volume for 1929 and 1933, thus declining in importance from both angles. Bulk tank stations, the wholesale branches of petroleum refineries, were second in numbers to wholesalers in 1933, rising from third place in 1929. In sales volume the petroleum wholesaling outlets were fifth in importance in 1929 and fourth in 1933.

Wholesaling by Merchandise Lines.—The foregoing analysis of the various types of wholesale establishments, while helpful to an understanding of the wholesaling structure, leaves out of consideration for the most part the important factor of merchandise specialization. As was pointed out in Chapter 2 the study of wholesaling is complicated by the duality of the wholesaling structure. Not only may wholesaling establishments be distinguished by the various *types* of wholesale groups discussed above, each of which is, in many ways, quite closely akin to others of its type regardless of the line of merchandise handled, but they may also be distinguished primarily by the kind of merchandise handled. On this latter basis there are *food* wholesalers, *hardware* wholesalers, wholesale establishments which handle *electrical goods, farm products,* and a great variety of other commodities.

There are many thousands of different kinds of merchandise flowing through the wholesaling structure of the United States. These commodities, however, may be grouped together into related classes, which are quite realistic if in their formulation the trade practices of wholesaling establishments are closely followed. As noted previously, the authors distinguished 343 of these detailed commodity groupings for purposes of classifying wholesale establishments by kind of business in the first census of wholesale distribution.[11] For statistical purposes these detailed classifications were summarized into 88 major classifications which were in turn condensed for some purposes into 24 trade groupings. A similar method was followed in the 1933

[11] See Classification by Kind of Business, Fifteenth Census of the United States, 1930. Distribution Vol. II, Wholesale Distribution, pp. 36-41, Washington, D. C., U. S. Government Printing Office, 1933.

census of wholesaling which set up 25 major groupings of wholesale establishments by kind of business and 166 detailed classifications.

This simplified classification of businesses by commodities for statistical purposes has its limitations, chief of which is the danger of confusing the sales of a particular kind of business with sales of commodities of the same or related names. Thus it is quite easy to assume that the sales of coal wholesalers are sales of coal whereas the designation coal wholesaler really means a wholesaler who specializes in coal *and related items.* The sales of coal wholesalers may actually include large amounts of coke, briquets and even wood, ice, and less closely related items, such as heating equipment and refrigerators. The classifications are useful, nevertheless, and conform quite closely to actual business practice in the majority of wholesaling enterprises.

The relative importance of the various kinds of business or lines of trade in the wholesaling structure are revealed in Table 11, which also shows changes which have taken place between 1929 and 1933. The food groups, including groceries and edible farm products, are by far the most important in terms of sales volume and in numbers of wholesale establishments. This ranking was maintained in both 1929 and 1933. Agricultural raw materials ranked second followed in order by dry goods and petroleum products. The effect of the depression was greatest for the groups dealing in such luxury merchandise as jewelry, or in industrial commodities such as metals and raw materials. The total decline in dollar value of all goods marketed at wholesale was 53.4%. Lumber and building materials suffered a loss of 75.7%; metals, a decline of 72.3%; electrical goods, a drop of 71%; while automotive products, raw materials of agriculture, furniture and house furnishings, and plumbing and heating equipment fell off in sales by more than 60%. Even when allowance is made for price changes these groups suffered very substantial losses in total sales volume.

Wholesaling Types by Kind of Business.—While the foregoing classifications of types of wholesale establishments and

of kinds of wholesale business have some general interest and significance they nevertheless fall quite short of most requirements for statistical accuracy. Close and careful quan-

TABLE 11. WHOLESALE TRADE FOR THE UNITED STATES, ALL TYPES OF ESTABLISHMENTS BY KIND OF BUSINESS

(All values expressed in thousands of dollars)

Kind of Business	Number of Establishments		Net Sales	
	1933	Per Cent Change from 1929	1933	Per Cent Change from 1929
Total	164,170	....	$32,151,373	−53.4
Amusement and sporting goods	1,552	+ 7.3	271,888	−44.0
Automotive products	6,304	+37.0	874,269	−61.2
Chemicals	2,473	+10.7	652,597	−45.3
Clothing and furnishings	4,376	−20 7	996,304	−54.3
Coal	1,382	+ 2 9	631,958	−45.5
Drugs and drug sundries	1,562	− 8.8	523,392	−38.0
Dry goods	4,795	− 7.4	2,242,392	−41.0
Electrical goods	3,232	−16 5	705,411	−71.0
Farm products—raw materials	16,799	−43.3	3,876,211	−66 9
Farm products—consumer goods	23,664	+13.2	3,178,427	−45 3
Farm supplies	2,467	+25.0	363,771	−59.5
Furniture and house furnishings	2,784	− 6.5	354,626	−64.3
General merchandise	193	−47.8	243,319	−59.2
Groceries and foods (except farm products)	23,847	+ 8.4	7,574,961	−42.8
Hardware	1,495	−16.4	394,180	−54 5
Jewelry and optical goods	2,073	−12.4	148,752	−69.9
Lumber and building materials (other than metal)	3,721	−32.5	522,075	−75 7
Machinery, equipment and supplies (except electrical)	11,449	− 3 4	1,264,855	−58.6
Metals (except scrap)	1,985	−12.8	1,231,814	−72.3
Paper and its products	2,851	− 8 1	600,526	−47.0
Petroleum and its products	28,455	+23.7	2,292,960	−29.1
Plumbing and heating equipment and supplies	2,249	−19.3	265,167	−67.6
Tobacco and its products (except leaf)	1,988	− 1.4	1,263,418	−25 3
Waste materials	3,417	−14.6	282,602	−48.8
All other products	9,057	+25.7	1,395,498	−52.0

(Source: Census of American Business: 1933—Wholesale Distribution, Vol. I, Summary for the United States, May, 1935. For 1935 data see Appendix E.)

titative analysis demands a homogeneous statistical unit. This means for wholesale establishments a unit which separates not only the distinctive types of establishments but also, *and at the same time,* the specialized kind of business or line of trade. This requirement derives from the fact that

there are a variety of different types of wholesaling establishments in most kinds of wholesale business. There are, for example, in the wholesale grocery trade, brokers, wholesale merchants, manufacturers' wholesale branches, chain store warehouses, cash-and-carry wholesalers, exporters, importers, and a number of other less important but distinctive types of business units. The operations of a broker in grocery products are quite different in many ways from those of the typical wholesale grocer, so different, in fact, that it is quite inaccurate for many purposes to lump together the data covering both brokers and wholesalers proper in the same set of figures even though they carry the same lines of merchandise. When data for all of the types are combined the results are but more confusing and misleading. This criticism does not apply to all possible uses of the data but primarily to sales and operating expense data. Combined totals have validity for comparison of the number of establishments, the number of employees, and total payrolls.

The student of marketing, however, is interested in comparability of all of the facts available and this can be achieved only by showing the statistics separately for each type of wholesaling establishment in each line of business. This problem was recognized in the first census of wholesaling and partially solved by presenting the more significant data in a correlation tabulation in the final reports for the United States and for the major political subdivisions thereof.[12] A more complete solution was found in the preparation of a series of special wholesale trade monographs as a part of the Fifteenth Census of the United States. These monographs presented separate data in detail for major trade groups.[13] In the 1933 Census of American Business, the statistical principle of homogeneous classification was followed carefully with the result that the basic data are now on a comparable basis for each of the major types of

[12] Fifteenth Census of the United States, 1930—Distribution, Vol. II, Wholesale Distribution, p. 53 and Tables 5, 6 and 7 in the United States Summary and in each state section.

[13] Fifteenth Census of the United States. Census of Distribution: 1930, Wholesale Distribution (Trade Series) Motion Picture Films, No. W-201; Radio Sets, Parts and Accessories, No. W-202; The Wholesale Hardware Trade, No. W-203; Wholesale Trade in Paints and Varnishes, No. W-204; Groceries and Food Specialties, No. W-205; Wholesale Electrical Trade, No. W-206; (Special Series), Multiple Types of Wholesaling, No. W-251.

wholesaling in as many lines of trade as were of sufficient extent to justify separate presentation.[14]

Geographic Distribution of Wholesale Trading Establishments.—In concluding this analysis of the wholesaling structure in the United States it is necessary to mention briefly the geographical dispersion of wholesale establishments. Wholesaling establishments are found in every state in the United States and in practically every county in each state. There is a high degree of concentration, however, in a few leading wholesale centers. Over one-half of the total volume of wholesale sales in 1929, for example, was concentrated in eleven counties and in the independent city of St. Louis.[15] More than three-quarters of the total volume of wholesale trade was transacted by wholesale establishments located in cities of 100,000 inhabitants or more in 1930.

No attempt to evaluate the wholesaling structure, either from the standpoint of internal efficiency or from the broader angle of its relation to the entire economy, has been attempted in this chapter. Part III will be devoted to the problems of efficient operation of wholesaling establishments as business units, whereas Part IV will analyze some of the more fundamental economic aspects of wholesaling. The following chapters of Part II will take up in detail the functions of important types of wholesale distribution beginning with a discussion of the wholesaling of farm products.

[14] Census of American Business, Wholesale Distribution, Vol. I, Summary of Wholesale Trade in the U. S. by Type of Establishment and Kind of Business, 1933 and 1929, Table 2-B. U. S. Department of Commerce—Bureau of the Census.

[15] Fifteenth Census of the United States, 1930, Distribution Vol. II, Wholesale Distribution, p. 14.

CHAPTER 7

WHOLESALE DISTRIBUTION OF AGRICULTURAL COMMODITIES

Scope of the Agricultural Market

Field Well Covered.—The wholesale marketing of agricultural commodities is an exception to the general rule of neglect of the field of wholesaling by students of marketing. Whether this has been due to the basic importance of agriculture, to the concern caused by the spread between prices which consumers pay and those received by farmers, or to other reasons, is hard to determine. The fact remains, however, that students of agricultural economics and of marketing have paid more attention to the whole field of marketing agricultural commodities (including wholesaling activities) than has been accorded to almost any other field of marketing with the possible exception of retailing.[1] This interest is well evidenced by the fact that the Federal Government in its efforts to aid agriculture has been called upon for unusual service in the field of agricultural marketing. The very title of the legislation passed in 1929 to help the farmer—the Agricultural Marketing Act—indicates this concern with the farmer's distribution problems. The more recent Agricultural Adjustment Administration has provided for marketing agreements as an integral part of the program

[1] There are, for example, a number of books on the general subject of agricultural marketing, among which may be mentioned: L. D. H. Weld, "The Marketing of Farm Products," written in 1915 and followed in 1932 by a new work, "Marketing of Agricultural Products in the United States," written in collaboration with F. E. Clark; Theodore Macklin, "Efficient Marketing for Agriculture, 1921"; James E. Boyle, "Marketing of Agricultural Products," 1925; and H. B. Price, "Marketing of Farm Products," 1927. There is a wealth of special studies in the field such as: Edwin G. Nourse, "The Chicago Produce Market," 1927; H. E. Erdman, "American Produce Markets," 1928; Wells A. Sherman, "Merchandising Fruits and Vegetables," 1928; The Reports of the Federal Trade Commission on the Grain Trade, Wholesale Marketing of Food, The Cotton Trade, and The Meat Packing Industry; the Report of the Joint Commission of Agricultural Inquiry, especially Pt. IV on Marketing and Distribution. The U. S. Department of Agriculture and a number of the agricultural colleges have contributed many valuable studies to this field. There are, moreover, in most of the general texts on marketing liberal, and on the whole, excellent sections devoted to agricultural marketing and the wholesaling of agricultural products.

for farm aid. As a result of this study and investigation so much material is available that the authors have not attempted a comprehensive treatment of this important segment of our subject, but have confined their efforts to a single chapter, the objective of which is to deal briefly with the economic significance of the wholesale distribution of farm products. This, they feel, is more than justified by the continued attacks leveled against middlemen and particularly wholesalers in the field of agricultural distribution which indicate the need for a better understanding of the real economic status of this phase of marketing.

Relative Decline in Agriculture.—The exact importance of agriculture is not generally as well understood as it should be. From the standpoint of fundamental human wants, it is of course true that agriculture is one of our most important industries since it supplies not only the food which we eat, but many of the more important textile raw materials from which our clothing is made. On this basis agriculture, therefore, ranks second to no other industry. From other angles, however, notably from the economic point of view, agriculture, which once was the dominant industry in the United States, had declined to fifth place by 1929, when measured on the basis of its contribution to the national income. Out of a total *national income produced* slightly in excess of $81 billions in 1929, *agriculture* was credited with $7,159 millions. *Manufacturing,* which ranked first, accounted for $19,308 millions, the *wholesale and retail trades* contributed $10,955 millions, the *service industries,* $9,207 millions, and *finance,* $8,219 millions.[2]

First Stage of Distribution

The General Picture.—It is misleading to speak of agriculture in general, however, since the diversification of the industry both by commodities and by geographic areas is extensive. There are, nevertheless, a few fundamental principles in the distribution of agricultural products which may be treated in fairly

[2] Statistical Abstract of the United States, Table 297, p. 270, Washington, D. C., U. S. Department of Commerce, 1935.

general terms since they apply to a wide range of commodities and prevail in many sections of the country. As a point of departure to a discussion of the wholesaling of agricultural commodities, in this more general sense, it may simplify the problem to subdivide the field into three alternative types of marketing: (a) direct selling; (b) the use of assemblers and country buyers; and (c) cooperative marketing, which constitute the first step in the distribution process.

Direct Selling prevails throughout a large part of the country, and for a great many agricultural commodities. Wherever the farmer sells his product directly to the ultimate consumer, it might be argued that he is engaging in wholesaling as well as retailing activities. He is performing the functions, not only of the retailer but of certain wholesaler intermediaries as well, and in so far as those functions have economic justification the farmer should expect (and usually does expect) to be remunerated for them in the price of his product. Direct selling takes a number of different forms, of which may be mentioned the roadside market, the retail public market, peddling or huckstering, and selling by mail.

There remains still another method of direct selling which for some agricultural commodities is of paramount importance. This is *direct selling to industrial consumers.* Producers of small fruits and berries as well as of certain varieties of vegetables, frequently find an outlet for the major part of their crops in the local cannery. Sometimes this method, rather than being direct selling, becomes direct buying when the initiative is taken by the manufacturer or processor.

Assemblers and Country Buyers. While direct selling plays an important part in the distribution of some commodities, the bulk of most farm products are distributed through the aid of middlemen. *Assemblers and country buyers* assume a dominant rôle in collecting the output of farms and forwarding it to the central markets. A great variety of assemblers operate throughout the country districts. In 1929 there were a total of 34,226 establishments which were classified by the Census Bureau as assemblers and country buyers. These whole-

sale agencies reported a volume of business for that year of $4,749 millions of dollars. In 1933 the number had declined to 23,962 while the sales had fallen to $1,774 millions.[3] One of the most common of the country buyers (not included in the above figures) is the *country general store,* which takes the produce of farmers in trade; and which frequently finances the operations of the farmer and markets his crops for him, deducting its pay from the proceeds in so far as they are adequate. There are also *cream and milk stations, grain elevators, cotton gins, potato and tobacco warehouses* in this field. Many of them are independent middlemen who operate with their own capital and make their living from whatever profits they may be able to earn in this highly competitive business. Direct buying is also carried on extensively by the meat packers, the beet sugar refineries, and the canneries. There are also chain organizations of such assemblers as grain elevators and milk and cream stations, as well as other corporations which maintain buying units in the agricultural districts. In addition, the large retail food chains frequently send out their own buyers to assemble the farm produce which they sell in their retail outlets.

Cooperative Marketing. An important first step in the distribution of many farm products is the farmer's own cooperative marketing agency. This has been highly developed in the California fruit districts and in certain dairying sections of the country. Farmers' cooperative marketing associations have had varying success depending largely upon whether they have been able to bring about fairly effective control over production and marketing of the commodity which they sell. Where a very substantial number of producers remain outside of the organization, it is difficult for the cooperative to achieve its major objective of realizing profitable levels for all of its members. This method of marketing has been stimulated by the Agricultural Marketing Act of 1929 as a major means of solving the farmer's problems. In the marketing season of 1934-35 there were some 10,700 of these farmers' cooperative marketing and supply buying associations. They had 3,280,000 members and

[3] Census of American Business, 1933. Wholesale Distribution, Vol. I, Table 1, p. A-1.

conducted a volume of business estimated at slightly more than a billion and a half dollars. These associations were located in all parts of the country but over 58% were concentrated in the eight states of Minnesota, Wisconsin, Iowa, Illinois, Nebraska, North Dakota, Missouri, and California, ranked in order of number of associations. California, however, led all states in volume of business transacted with nearly 12% of the total. Illinois, New York, Minnesota, and Iowa also ranked high in business volume and, with California, accounted for over 44% of the total. Commodities handled by these cooperatives were, in order of their importance, measured in sales, dairy products, 28.8% of the total; grain, beans and rice, 20.6%; fruits and vegetables, 13.1%; livestock, 11.4%; cotton and products, 6.5%; poultry and products 3.5%; wool and mohair 1.0%; and tobacco, nuts, and forage crops, less than 1.0%. Miscellaneous selling accounted for 1.6% of the total volume of business, while miscellaneous buying of such items as seeds and supplies amounted to 12.2%.[4]

Urban Wholesale Markets

Functions and Middlemen.—The assembling of farm products at the point of production which has just been discussed, is but the first step in the wholesale distribution of agricultural commodities. The second step is the concentration of these commodities in the *primary markets* of the country. This step is made necessary by the fact that the production of farm products is carried out in the sparsely settled rural areas of the country, whereas the demand for the bulk of the farmer's output lies in the great urban communities of this and foreign lands. The wholesale middlemen of the primary or central markets secure their goods in carload lots from the local growers' markets. These wholesale distributors may be either *brokers* or *merchants* or they may be *auction companies, commission houses*, or cooperative associations. They may or may not provide storage facilities for the commodities in which they deal, although the rule is more and more

[4] "Domestic Commerce" Vol. XVII, No. 7, Mar. 10, 1936, p. 149, Washington, D. C., U. S. Bureau of Foreign and Domestic Commerce. See also Ward W. Fetrow, "Cooperative Marketing of Agricultural Products," Bulletin No. 3, Farm Credit Admin., Feb., 1936.

to maintain appropriate warehousing and preserving facilities for non-perishable, as well as perishable, commodities. The wholesale middlemen of the central markets sell their products very largely to other wholesalers or jobbers in the same or subsidiary urban markets, or to retailers who are able to buy in substantial quantities. Thus another type of wholesale middleman found in most central markets is the large group of secondary wholesalers or jobbers whose chief function it is to supply the retail trade. They frequently specialize by commodity lines and secure their stocks from the carload receivers, or from other wholesale dealers in the central markets. They constitute what is known as the secondary wholesale market. They sell to retail stores, to hucksters, to peddlers, to hotels and restaurants, and frequently supply many of the roadside markets in the vicinity of the large cities.

In addition to the general produce markets, there are the wholesale markets for meats and dairy products, for grains, cotton, wool, and tobacco. Each type of farm commodity has its own distribution technique. An exhaustive picture of the wholesale distribution of all types of agricultural commodities is beyond the scope of this volume but the extent of the business may be briefly indicated. In 1929 a total of 16,970 wholesale middlemen were engaged in the marketing of agricultural products in city markets, exclusive of exporting and importing houses. The total volume of transactions amounted to $11,337 millions in that year. While the numbers of such middlemen had increased to 17,399 by 1933, the volume of business had fallen to less than five billions of dollars.[5] These figures do not include the organized commodity exchanges which constitute another important segment of the wholesale structure for agricultural products.

Organized Commodity Exchanges.—The great bulk of the grain crops produced in the United States are distributed through the agency of organized trading institutions known as commodity or grain exchanges. These exchanges do not handle

[5] These data were taken from H. H. Maynard, W. C. Weidler, and T. N. Beckman, "Statistical Supplement to Principles of Marketing," Table XVII, p. 24, New York, The Ronald Press Co., 1935. They are based upon the Census of Distribution, 1929, and the Census of American Business, 1933.

the actual wheat or corn, but rather provide a place for the purchase and sale of ownership rights to specific quantities of grain. Such exchanges are located in the central wholesale markets adjacent to the producing areas. The Chicago Board of Trade is one of the better known of these exchanges which are also found in Minneapolis, Kansas City, St. Louis and at other points. Since there is a tendency for the physical distribution of a commodity to follow the ownership, it is natural to find in these same communities large storage reservoirs or elevators in which the grain is assembled from the local elevator points in the producing territories.[6]

Organized exchanges, which are not restricted to the grain trade but include cotton, wool, and other commodities, perform a number of very valuable economic and social functions. By providing a place where buyers and sellers can come together and compete freely, with a maximum of factual information available, the forces of demand and supply are equalized, and world prices tend to be stabilized. Thus the exchanges perform the useful service of providing guidance for future production. If prices are high, production is stimulated; if low, it is retarded. Another important social function which commodity exchanges work out unconsciously and automatically consists in the indirect allocation of the utilization of the various commodities throughout the year. Since the demand for most farm products is continuous and since production is seasonal and highly uncertain as a result of the hazards of weather, insect pests, and other unpredictable factors, it is necessary, first, that a short crop should not be consumed during the early months of the year following the harvest. Otherwise, dearth and possibly distress before the next harvest might ensue. Secondly, it is desirable that a large crop should be utilized more liberally throughout the year to satisfy consumer wants more fully. By focussing the actual demand and supply picture and by determining appropriate prices, the exchanges provide a real service to society. They also contribute to the reduction of risk in certain manufacturing and marketing operations through the pro-

[6] For an excellent description of the operations of a commodity exchange see R. S. Vaile and P. L. Slagsvold, "Market Organization," Ch. 14, New York, The Ronald Press Co., 1930.

vision for *trading in futures.* A *futures* market makes it possible for any business man who must make future contracts, the profits on which are in danger of elimination through fluctuation in the price of a basic commodity, to protect himself by *hedging.* Hedging consists of "the practice of entering simultaneously into two contracts of an opposite, though corresponding nature, one in the trade, spot or cash market and the other in the speculative or futures market." [7] The organized commodity exchanges provide the mechanism which makes possible this valuable service. Unfortunately, they also provide a channel for excessive speculation which at times verges on gambling. This is an evil which should be curbed and is curbed to some extent by the rules of the exchanges and by the Government. The existence of such abuses should not be allowed, however, to destroy the exchanges themselves since they perform valuable economic functions for society.

Foreign Trade in Agricultural Commodities

Scope of the Export Market.—The exportation of many agricultural commodities is also facilitated by the organized exchanges. The exchanges, however, constitute but one of the numerous wholesaling institutions which participate in the export trade. There is a great variety of export agents, brokers, forwarding agents, and merchants who specialize in selling abroad large quantities of the produce of American agriculture. In sharp contrast with the export trade in manufactured goods, which is frequently handled by the producing concern, a relatively small proportion of the exports of farm products is ever handled by the farmer himself. The use of wholesale middlemen predominates from the assembly of the crude produce at the country points to the final dispatch of shipments to the ends of the earth.

Wholesale middlemen in the export, as in the domestic trade, perform a multitude of essential functions in exchange for their

[7] H. H. Maynard, W. C. Weidler and T. N. Beckman, "Principles of Marketing," p. 543, New York, The Ronald Press Co., Revised edition, 1932. Chapter 30 of this text describes hedging at considerable length. See also W. H. S. Stevens, "The Relation of the Cash-Future Spread to Hedging Transactions," *Journal of Business*, University of Chicago, Vol. II, No. 1, Jan. 1929, and "Relationship of Cash and Future Prices," Annals of the American Academy of Political and Social Science, May, 1931.

remuneration. They consolidate the relatively small receipts from individual producers into shipments of car-lot size which effect economies in transportation. Storage facilities are provided at strategic points between the producing centers and the ports of export as well as in the seaport cities. In the interim it is necessary to sort and grade the various types of commodities into the standardized classifications which are used on the exchanges and in the trade generally. Certain commodities require conditioning and packing, such as the scouring of wool and the wrapping and packing of fruits. Cotton must be ginned and baled; walnuts require bleaching; apples are often washed, waxed and wrapped before boxing; and many other items nominally classified as farm products, such as butter and lard, require substantial manufacturing operations before they are ready for the market.

The exportation of farm products has constituted an important portion of the wholesale trade of America since early colonial days.[8] It has declined in relative importance, however, as our economy has shifted its emphasis from agriculture to manufacturing. The world war through its large-scale destruction of wealth coupled with the greatly reduced production in the warring countries served as a gigantic whirlpool to suck into its vortex the products of American farms. This greatly increased war demand forced prices up to such a level that production was stimulated far beyond normal requirements. After the cessation of hostilities there was a drastic curtailment of foreign demand which caught our over-expanded agricultural industry unprepared. Geared to the higher production, agriculture continued to produce in hopes of a revival of the foreign demand. The post-war trend towards national self-sufficiency, however, followed by the severe depression of the early 1930's, left little hope of a restoration of even the pre-war demand. The seriousness of this condition can be better appreciated by examining the relation of the export demand to total production for a few leading agricultural commodities.

At the beginning of the nineteenth century we were exporting approximately 55% of our cotton production. By the mid cen-

[8] See Chapter 4.

tury this ratio had risen to 76% and was over 70% in 1901. We exported two-thirds of our cotton in 1910, 43% in 1920, 60% in 1926. By 1929, however, our exports of this commodity had fallen to 46% of our production. The fact that such a large proportion of our cotton crop has been normally exported, coupled with the dependence of the cotton producing states on this single commodity, illustrates the vital part which exporting plays in the welfare of a very extensive section of the United States. Wheat is another farm product which we have exported in large volume in the past but which is now in greatly lessened demand in foreign lands. In pre-war years we exported 21% of our output, on the average, and in 1914 as high as 37% of our total production was sold abroad. The war demand increased the average ratio to 25% with the year 1918 reaching 31%. The post-war era has seen the foreign market decline until in 1934 we exported but 4% of our wheat production. In addition to the two examples just cited the United States exports substantial quantities of other farm products, notably tobacco, pork, lard, and fresh and dried fruits.[9]

Imports of Agricultural Commodities.—The foreign wholesale trade of the United States in agricultural commodities is by no means confined to exporting. A very substantial volume of the products of foreign agriculture is imported each year. We are wholly dependent upon foreign sources for coffee, tea, cacao, and spices. We import large quantities of such tropical or subtropical products as bananas and pineapples, cocoanuts, coconut oil, dates, figs, olives, olive oil, vanilla beans, and many other items which flow to our tables from the markets of the world. One of the most important of our foodstuffs, cane sugar, is imported in large quantities from Cuba and the Hawaiian Islands. Crude rubber, which is today a plantation product and hence properly classified as an agricultural commodity, comes from foreign sources exclusively.

The importation of all of these commodities represents a substantial volume of wholesale trade, the handling of which provides a multitude of import middlemen with a source of

[9] The authors are indebted to the Bureau of Foreign and Domestic Commerce for the facts quoted in this and the following section.

livelihood. There are import agents and brokers as well as import merchants who operate as independent wholesale middlemen and perform such functions as assembling, storing, financing, selling and forwarding to wholesalers, retailers, and industrial consumers in the American market. There are, in addition, the coffee roasters, sugar refineries, spice grinders, and other processors who import directly and thereby perform the wholesaling functions themselves.

The total volume of our imports of foreign produced agricultural products amounted to more than two billion dollars in 1929. There were in that year 2,310 independent wholesale middlemen engaged in the import trade with a total sales volume of about $256 million. While there is some duplication in the latter figure a comparison of the total imports with the business reported by these specialized import middlemen gives a rough approximation of the extent of direct importing by manufacturers and other processors. Such a comparison indicates that roughly 90% of our imports are direct imports by processors while only 10% are handled by specialized middlemen. This conclusion is somewhat misleading since direct importing of sugar by the refineries and of coffee by roasters swells the volume of this phase of the business. For many commodity lines the independent middlemen are very important factors.

Federal Aid in the Wholesaling of Farm Products.—No discussion of the wholesale marketing of agricultural commodities, however brief, would be adequate which omitted an account of the relation of government to marketing. Government assistance in the United States has been extended to both foreign and domestic trade in farm products but by far the greater efforts have been expended upon intra-national trade. Two general categories of federal aid to agricultural marketing may be set up, direct and indirect. Indirect encouragement has been provided for many years by the Department of Agriculture, and particularly by the Bureau of Agricultural Economics, in its studies of various phases of farm marketing. Other federal agencies have also contributed to this same objective. The Federal Trade Commission has made a number of exhaustive investigations into marketing practices in such commodities as grain,

cotton, and dairy products. The Department of Commerce, through the Census Bureau and the Bureau of Foreign and Domestic Commerce, has provided facts and analytical studies of various aspects of the wholesale distribution of farm products, both in the domestic and in the foreign fields. The Congress of the United States not only made a special investigation of agriculture through the Joint Commission of Agricultural Inquiry which issued its report in 1921, but has passed legislation designed specifically to foster a more effective marketing of farm products.

The Agricultural Marketing Act.—Direct assistance of this nature was first provided in the Agricultural Marketing Act passed by the 71st Congress in 1929. In the Declaration of Policy of this Act it was "declared to be the policy of the Congress to promote the effective merchandising of agricultural commodities in interstate and foreign commerce." This policy was to be effectuated by (1) minimizing speculation; (2) eliminating waste and inefficiency; (3) encouraging producer-owned and producer-controlled cooperative marketing agencies; and (4) preventing and controlling surpluses, "through orderly production and distribution." A Federal Farm Board was set up to administer the Act. This Board gave encouragement to the cooperative marketing movement as provided in the Act, and undoubtedly contributed to an expansion in the number of cooperatives and the extent of their operations. The Board also engaged in efforts to maintain the prices of certain basic commodities such as cotton and wheat through the operation of *stabilization corporations*. The activities of the Board were severely criticized by friends and foes; by friends because it failed to keep prices from falling, and by foes who were opposed to an encroachment of government into the fields of private enterprise. Since the inception of the Federal Farm Board was coincidental with the beginning of a severe depression, it is little wonder that its efforts did not meet with as widespread success as the advocates of the Act had hoped to see.

The Agricultural Adjustment Act.—By 1933 the country was in the throes of depression. A new administration had

taken over the reins of Government and a general overhauling of the machinery of Government was in process. The Federal Farm Board disappeared with the supercedence of the Agricultural Marketing Act by the Agricultural Adjustment Act of 1933. A new agency, the Agricultural Adjustment Administration, was established to administer this new Act. While the basic purpose of the A.A.A. was production control, which was later declared unconstitutional by the United States Supreme Court, provision was made for marketing agreements in Section 8 of the Act which empowered the Secretary of Agriculture "to enter into marketing agreements with processors, associations of producers," and others. These marketing agreements were not affected by the above decision. A further provision, giving the Secretary of Agriculture authority to issue licenses to marketing agencies, was well designed to implement the marketing agreements with an enforcement mechanism. During the first two years of operating of the Act, marketing agreements were used for three groups of commodities. These are well summarized by Dr. Edwin G. Nourse, Director of the Institute of Economics, Brookings Institution, as follows:

> First are those of a special character, employed temporarily on basic crops or those which after a disappointing experience with marketing adjustment were added to the basic list by amendment of the act and were brought under production control plans. Second are marketing agreements and licenses in the dairy products industry. Milk and its products, though named as basic in the act, have been dealt with only under the marketing adjustment method of treatment. Third, we have what are known as "general crops"—primarily horticultural products, although for convenience embracing a few miscellaneous items such as gum turpentine and gum rosin, package bees and queens, and, for a time, alcoholic beverages.[10]

Between August 1, 1933, when the first marketing agreement for fluid milk in the Chicago market was put into effect, and July 20, 1935, a total of 61 marketing agreements were established. These agreements covered a considerable range of commodities including 15 milk-shed agreements, 7 tobacco agreements, and agreements covering a great variety of fruits, vege-

[10] Edwin G. Nourse, "Marketing Agreements, Licenses and Orders," *National Marketing Review*, Vol. I, No. 3, Winter, 1936, p. 226.

tables and nuts. There were, moreover, 100 licenses issued between August 1, 1933, and June 1, 1935, and 19 codes of fair competition in agricultural products had been approved by January 7, 1935. These Agricultural Marketing agreements contained provisions designed to solve a number of problems which were quite distressing to the producers. These problems are summarized as follows:

1. Improved distribution of supplies.
2. Deferring of shipment or sale.
3. Prohibition of marketing.
4. Diversion to by-product uses or lower priced markets.
5. Agreement on prices and volume of takings.
6. Regulation of trade practices.
7. Control of charges or margins.
8. Substituting a new price-making system.
9. Minimum prices to growers.
10. Open-price provisions.
11. Trade and consumer price controls.
12. Control of current or future production.[11]

No better conclusion of this phase of the marketing of agricultural products could be found than in the following statement:

> Assuming that such groups as wish to continue this type of effort under "the centralizing power of government" are upheld in their legal right to do so, two results in terms of market economics may be expected. First, we shall have a demonstration of what controlled marketing, at present local or regional in character, but potentially coordinated on a nation-wide basis can do toward improving the regulation of the quality of the product and the adjustment of its supply to the ascertained conditions of market demand. Second, we shall see whether commodity groups, given this measure of control linked with an advisory service on the part of a government agency, will exercise their powers with a sufficiently long view as to their own welfare and a sufficiently broad view as to the claims of other groups so that the net result will be economically beneficial rather than harmful. Such is the challenge both to the government agency and to the producers and distributors.[12]

[11] Edwin G. Nourse, "Marketing Agreements Under the A.A.A.," Ch. III. Washington, D. C., The Brookings Institution, 1935.
[12] Edwin G. Nourse, "Marketing Agreements, Licenses and Orders," *National Marketing Review*, Vol. I, No. 3, Winter, 1936, p. 231.

CHAPTER 8

THE REGULAR WHOLESALER AND HIS SERVICES TO THE TRADE

The most important single type of *wholesaling* agency in the marketing structure of the United States is the *wholesale merchant* who is oftentimes known as the regular wholesaler, *service* wholesaler, *full-function* wholesaler or merely the wholesaler. It is this type of organization which is commonly but erroneously identified as comprising the entire field of wholesaling by those who adopt the very narrow view of the term as discussed in Chapter 2. This type of wholesaler is defined as:

> WHOLESALE MERCHANTS, sometimes designated as service wholesalers or full-function wholesalers, perform all of the principal wholesale functions. They buy merchandise outright and sell on their own account. They maintain places of business, including warehouses for the storage of the surplus merchandise required by their communities. In most of the trades they usually sell to dealers by means of salesmen who call upon the trade regularly. They extend credit and make deliveries. They assemble certain lines of merchandise in large lots and redistribute them in smaller quantities. In some trades, particularly where the merchandise is of a perishable nature or derived from unstandardized production, the wholesale merchants must perform the function of grading and standardization. Finally, it is necessary that the wholesale merchants assume the risk incident to their type of business activities.[1]

As pointed out in a preceding chapter dealing with the history of wholesaling in the United States, the wholesale merchant in one form or another has been a part of our distributive organization from the earliest colonial days. At first he operated mainly as an importer, later he combined wholesaling with retailing, and finally he emerged as a specialized middleman occupying a position between producers on the one hand and

[1] Fifteenth Census of the United States, 1930, Census of Distribution, "Wholesale Distribution" (Definitions and Classifications), p. 21.

retailers on the other. In colonial times domestic production was limited and on a small scale, consequently there was little need for wholesalers. This is shown in the history of the boot and shoe industry where it has been said that "there was but one profit, to be paid by the consumer; the shoemaker and retail dealer coming directly together. The merchants sold shoes over the same counter with rum, molasses, dry-goods, hardware, and provisions."[2] With the advent of factory production and specialized retailing, wholesaling became more prominent in the marketing of domestic products as well as foreign goods, until, during the nineteenth century, the wholesaler in the United States reached full stature, as indicated from the following excerpt which describes a wholesale grocery concern typical of the latter part of the century:

> Beginning with the building itself, the great grocery firms of New York are similar in that they occupy their own homes, some of them covering the greater part of a city block—enormous ten story buildings, where from the basement to the top story is stored the most complex stock to be found outside of a department store, lighted by electric lights, reached by fast running elevators, and filled with every product demanded by the perennial hunger of the human race. On the ground floor is located the shipping department, where from twenty-five to forty great two-horse trucks and delivery wagons can be loaded at once with expedition and accuracy. Another floor is usually given over to the offices and counting rooms, handsomely finished off, where a force of clerks, the pay of whom alone would have swamped the old-time merchant, is kept busy recording the infinite detail of the firm's transactions. A few houses have their own facilities for roasting coffees, grinding spices, etc., our own house having a modern coffee roasting plant that is capable of turning out 100,000 pounds a day; also a fireproof spice-grinding room, with high-speed steel mills with a capacity of over 100,000 pounds. Extensive plants for packing various lines of farinaceous goods and olives, and also for compounding and manufacturing extracts, essences, etc., can be found in some of these mammoth wholesale establishments.[3]

Unfriendly Attitude Toward Wholesalers.—Despite his long history and service, much criticism, as has been pointed out previously, has been leveled against the wholesaler and many

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[2] C. M. Depew (editor), "One Hundred Years of American Commerce," p. 571 (article on the boot and shoe trade).

[3] *Ibid.*, p. 600 (article on the grocery trade).

attempts have been made to eliminate him from the marketing structure. He has been accused of performing unnecessary functions, of failure to render essential services in a reasonably efficient manner, and of gross neglect in a number of other, frequently unspecified ways. In general, it may be said that the wholesaler has been on trial before a prejudiced, if not unsophisticated, jury which, through ignorance of or blindness to the wholesaler's true place in our economic order has looked upon him with suspicion and has been ready to condemn him a priori. The wholesaler's existence has, consequently, been deemed precarious and his complete disappearance has been freely predicted by self-appointed prophets and others who are unfamiliar with the facts.

Criticism of the wholesaler and antagonism towards him is not a new phenomenon. Economists generally may have taken their cue from John Stuart Mill whose writings served as textbooks for several generations, and whose appraisal of wholesaling as noted in Chapter 4 was neither complimentary nor adequate. Evidence of the existence of this attitude toward the close of the last century in the mind of the layman is found in a letter written in 1897 to a young man who had been recently employed by a wholesale hardware firm. The letter expressed the following convictions:

> It is very unwise of you to start your business life in the wholesale jobbing trade, because any time you spend upon it will be wasted. The wholesale merchant has no place in these progressive times. You may take my word for it that within ten years there will be no more wholesale establishments in the United States.[4]

Moreover, ever since marketing efficiency has become a subject of general interest the wholesale merchant has been widely condemned as a clog to progress. It has been urged that a shortening of the chain of middlemen between primary producer and ultimate consumer would inevitably eliminate much of the waste and inefficiency of marketing and hence reduce marketing costs.

Notwithstanding the many attacks leveled against him the wholesaler has, as was shown in Chapters 4 and 6, maintained his position as a dominant element in the wholesaling structure

[4] J. R. Sprague, "The Middleman," p. 2, New York, William Morrow & Co., 1929.

of the nation. The facts which have been gathered and published by the United States Bureau of the Census are incontrovertible and reveal the existence of more than 80,000 wholesalers proper which is over half of all the wholesale establishments enumerated. Their sales volume has accounted for over 40% of the annual volume of wholesale trade as measured by the Census, ranging from 13 to 30 billions of dollars, depending upon the stage of the business cycle.

Study of Wholesaler's Functions Essential.—Before a verdict can be impartially delivered and in order that the student of marketing may gain a better understanding of the wholesaler, his strength, and his weaknesses, it becomes essential to examine the functions which he performs as reflected in the various technical services he renders. Inasmuch as the regular wholesaler operates principally between the manufacturer or primary producer and the retail middleman, it will be helpful to analyze his services from the standpoint of each of these two factors. From the point of view of the retailer, the wholesaler is a buying agent, while for the producer he performs the business of selling. These are the two principal business functions of the regular wholesaler, namely, to act as a purchasing agent for retailers and other customers on the one hand, and to operate as a distributor of goods for manufacturers, processors, and original producers on the other. However, in order to discharge these major functions properly the wholesaler must perform a number of important operations and render certain significant services. It is the task of this chapter to discuss the services rendered to retailers who constitute the great bulk of the wholesaler's customers, and in the chapter that follows to analyze the ways in which the wholesaler serves the producer whose goods he undertakes to distribute.

In this discussion it is assumed that the wholesaler operates with reasonable efficiency. That some wholesale houses are inefficiently conducted is readily conceded, just as it must be admitted that some retail stores and some manufacturing plants are uneconomically operated. It may even be true that in certain lines of trade wholesalers as a group use antiquated methods

and techniques and to that extent lack in efficiency. Naturally, there are a number of shortcomings that may justly be laid at the door of certain wholesalers; these will be discussed subsequently. At this juncture and for the purpose of discussion in this and the following chapter it is assumed that the wholesaler is discharging with reasonable skill and efficiency the functions which brought him into being. For purposes of the analysis presented in this chapter it must also be assumed that the retailer whom the wholesaler serves operates on a relatively small scale and carries a substantial number of items which are produced by many different factories. This assumption is warranted because the facts reveal that the vast majority of retailers fall in that category. To the extent to which exceptions are found to these assumptions it is recognized by the authors that a modification of the wholesaler's activities and functions is both desirable and feasible. A number of these exceptions which appear to justify attempts to go around the wholesaler will be discussed in appropriate parts of this treatise.

How the Regular Wholesaler Serves His Customers.[5]— For the average retailer, as has been stated above, the typical wholesaler acts as a purchasing agent, anticipating his needs and assembling numerous commodities from a host of widely scattered producers from whom he buys in large and economical quantities. He provides storage reservoirs at convenient points so that delivery of goods to retailers may be made expeditiously. In making the sales, usually on credit, special services are frequently rendered by the wholesaler's salesmen which enable the retailer to purchase the right merchandise in quantities that make a rapid stock-turn possible. Just how these and other services are rendered and the implications that lie therein is shown in the following analysis.

[5] Unfortunately there is a dearth of material concerning the functions of the regular wholesaler. Most of the discussions of the subject are to be found largely in articles appearing in various trade publications to which specific reference is impractical. More formal treatment may be found in the following: T. N. Beckman, "Wholesaling," Ch. II, New York, The Ronald Press Co., 1926; N. H. Engle, "Competitive Forces in the Wholesale Marketing of Prepared Food Products," Sec. II, *The Bulletin*, published by the National Wholesale Grocers' Association, Nov. 1929; "Wholesalers' Functions and Services," National Wholesale Conference, Washington, D. C., Chamber of Commerce of the United States; and T. N. Beckman, "The Economics of Hardware Wholesaling," *Implement & Hardware Trade Journal*, 1927, Kansas City, Mo.

Planning for Customers.—One of the first functions of the wholesaler is to anticipate his customers' requirements and to be ready at all times to fill their needs. To perform this function, it becomes necessary for the wholesaler to have the right merchandise, at the right time, at the right price, and in the right amounts. This presents an intricate set of problems and involves technical details. Outside of a limited number of staple products, the demand for goods usually varies with the different communities in the wholesaler's territory. Among the factors affecting such demand may be mentioned race, nationality, religion, income, wealth of the population and its distribution, education, and custom. A careful analysis of consumer demand is sometimes necessary before decisions can be made by the wholesaler as to what kinds of goods to buy, but generally such information is collected by his salesmen continuously. Not only is the problem one of the determination of *what* to buy, but it involves also a determination of quantities to be bought at any given time, and the sources from which to make such purchases.

The task of planning for customers is not a one-time proposition, but is rather a continuous process. Figuratively speaking, the wholesaler constantly sweeps his territory with his eye and studies its needs. As soon as changes in demand are ascertained, he proceeds to look for the merchandise that will satisfy the new needs. That is why he can often tell the retailer of a demand that will be felt in his territory next spring or fall, long before the retailer becomes aware of it himself. The progressive wholesaler must look ahead, and anticipate the needs of consumers, and hence of retailers, in his territory. This forward look stands him in good stead not only in searching out new sources of supply for items that will be wanted by the trade months hence, but also in foreseeing the coming doom of certain items which should be quickly disposed of before they become "frozen" stock on the shelves of retailers or in his own warehouse.

The Wholesaler as an Assembler.—The planning functions of the wholesaler are not recognized as such by the average re-

tailer. The retail dealer is more apt to think of the wholesaler as a source of supply for the goods he sells, which emphasizes the assembling function of the wholesaler, who, in order to have on hand the merchandise which the retailer requires, must assemble his stock from hundreds, if not thousands of different sources. It is thus the wholesaler's duty to collect his stock judiciously from all corners of the United States and from the most remote parts of the world. This function requires the maintenance of a thoroughly competent, if not a large, staff of buyers who must be on the alert for new sources of supply; price changes; natural factors, such as storms, earthquakes, or drought which may affect the supply; for artificial factors such as legislation; and for many other influences upon the supply of a great variety of merchandise.

There are in the United States alone over 50,000 plants manufacturing food and kindred products, nearly 30,000 plants engaged in the production of textiles and their products, over 8,000 manufacturing plants producing chemicals, drugs, and druggists' sundries, and approximately 20,000 plants producing items that are normally handled by hardware stores. In the absence of the wholesaler who carefully selects from this large number of plants those producing the items in which he deals, retailers of groceries, dry goods, drugs, and hardware would be faced with the necessity of buying directly from thousands of manufacturers. It is true that a single manufacturer like Standard Brands, Inc., or the General Foods Company, may own a number of plants, and hence there would not be as many manufacturers in all of the trades indicated as there are producing units. It is also true that no retailer handles the goods produced in all of the plants making the type of merchandise in which he deals. Nevertheless, direct buying would necessitate the establishment of direct contact with thousands of manufacturers in order to select several hundred of them as regular sources of supply. Such contact would have to be established and maintained by the manufacturer through his salesmen and his catalogs, or by the retailer calling upon the producer at his place of business.

To receive the hordes of salesmen from hundreds or thousands of manufacturers, were a retailer attempting to buy directly

from producers, would require the entire time of one or more individuals in the retailer's place of business. Similarly, to place orders by mail would necessitate the handling and filing of a truckload of manufacturers' catalogs, kept up-to-date with the latest price sheets, and constant searching for the items wanted by consumers. This, too, would require an amount of work sufficient to occupy the full time of more than one person and would incur, at the same time, heavy expenses for the retailer. To buy goods from manufacturers by visiting the market is even more out of the question for most lines of merchandise. There are a few exceptions to this rule. Many furniture sales, for example, are made by manufacturers through exhibitions held semi-annually at Chicago, Grand Rapids, and other points to which furniture retailers come regularly, but even in this trade such buying is supplemented by mail orders or through orders given to the manufacturers' salesmen. Furthermore, in such trades as women's ready-to-wear, and for certain types of dry goods, the buying is also highly concentrated in such cities as New York and Chicago, hence it is quite possible and feasible for the larger-scale retailers to visit the market at frequent intervals. Such exceptions are few, however, and it would, therefore, be most unwise for retailers in most lines of trade to attempt to do their buying direct. The geographic diffusion of such sources of production as food canneries and factories making hardware or drug items throughout a country as large as the United States would clearly render impractical and costly, if not impossible, the direct purchasing of many varieties of merchandise.

Some idea of the task of assembly which the wholesaler performs for the retail outlets can be gained by noting the number of items carried by the various stores. The average retail grocer, for example, is said to handle from 1,200 to 3,000 items; the average hardware dealer stocks from 3,000 to 8,000 separate items, while for the independent retail druggist the number of articles is sometimes as high as 12,000. Thus any attempt to assemble his own stock in trade would prove rather costly for the retail merchant. The procedure must be shortened by use of the wholesale system. A single letter, a telephone call, a

visit to the nearby wholesaler, or a call from the wholesaler's salesman puts the retailer in touch with virtually hundreds of manufacturers and other sources of supply. The wholesaler's stock often represents thousands of items. For example, the retail grocer can choose from a display of 10,000 to 20,000 items; the druggist has at his command the wholesaler's inventory of around 45,000 to as high as 60,000 different items;[6] the hardware dealer can buy from the jobber's stock of from 20,000 to 60,000 items; while the well-stocked electrical wholesaler carries about 30,000 items, and the dry goods wholesaler's stock may run into 250,000 individual items. Thus it is, no doubt, a great convenience for the retailer to have the burden of assembling fall on the wholesaler. If the wholesaler were not here today he would have to be invented, if for no other reason than for the performance of this function alone.

Large-Scale Purchasing.—A technical function of the wholesaler closely related to assembling is that of large-scale buying. Long before the chain store systems brought the advantages of large-scale buying into public notice the wholesaler had practiced this business method to the general advantage of his retail clients and the consuming public, as well as for his own profit.

While the quantity bought or sold is not an essential characteristic of wholesaling, the wholesaler generally buys in large quantities which he then breaks down into amounts that suit the retailer's convenience. He usually buys by the car or gross and sells by the case or dozen, although he often sells also by the single package. This large-scale buying is particularly true of grocery, drug, and hardware wholesalers, as evidenced by their frequent location where ample track or dock facilities for loading and unloading are available. Even a medium sized hardware concern may have several carloads of merchandise at a single time on the siding near its warehouses.

Large-scale buying enables the wholesaler to effect economies which the forces of competition compel him to pass on to the

[6] It is claimed that the minimum number of items stocked by the smallest wholesale houses in the drug business is 10,000 and that the number of items stocked by the largest service wholesalers exceeds 100,000. ("Distribution Through Drug Channels in the 84 Wholesale Trading Areas," p. 17, The National Wholesale Druggists' Association, 1935.)

retailer or to his other customers in the form of reasonable prices, considering the services rendered. These economies are two-fold in character. In the first place, judicious large-quantity buying enables the wholesaler to secure the goods at lower prices. The price concessions may take the form of quantity discounts, "free deals," superior credit terms, or merely lower price quotations. In the second place, the wholesaler effects economies in transportation. By buying in car lots he lowers the cost of transportation, since on many items freight rates on shipments in car lots are from one-half to less than one-third the charges made for less-than-car lot (l.c.l.) shipments. Stated otherwise, the rates on l.c.l. shipments are often two or three times as high as the rates charged on car lot quantities. In this wise, the wholesaler brings the goods close to his customers at freight rates much lower than such customers could receive on ordinary orders. Only a short haul is then required at the higher local rate. Furthermore, in shipping goods in l.c.l. amounts payment must be made for a certain minimum weight even though the shipment is less than the minimum. In ordering from a wholesaler, where a wide selection of goods is afforded, the retailer can always make the minimum weight by consolidating many items on one order thereby reducing the cost of transportation still further.

Finally, since the wholesaler buys in large amounts, he is often the logical medium for grading and sorting commodities according to size, quality, type of package, and the like, in conformity with local demand. By virtue of the large scale of his operations and his superior knowledge, the wholesaler can perform this function to better advantage than can the retailer.

Wholesaler Maintains a Reservoir of Goods for His Customers.—Not only does the wholesaler assemble a large assortment of merchandise which he buys in large quantities at any given time, but it is his duty to maintain both the complete assortment and the volume of both regular and emergency goods in a reservoir that can be tapped by any of his customers on short notice. He must carry the surplus stock for his territory which enables his customers to keep their merchandise invest-

ment down to a minimum and to forego the risk of loss due to deterioration or price declines. Were the wholesaler abolished, the retailer would be forced to buy in large amounts in order to prevent "outs," or else adopt an elaborate system of stock control and perpetual inventories. The latter is impractical and too expensive for the average store dealing in a large variety of merchandise, and the former practice would result in sluggish movements of goods, few stock-turns, and much obsolete merchandise. The seasonal nature of the production of many goods, particularly raw materials, complicates this problem. Some goods are obtainable only at certain seasons, although the demand for such items may be continuous, as is true of certain fancy grocery products. Such goods must therefore be bought in large enough quantities to last until the following season. Other goods, though they can be purchased at any time, may have but a short selling season; hence large purchases must be made in advance, and a different class of merchandise chosen to take their place afterwards. Technical problems of storage or warehousing add to the difficulties. Some products are heavy, some are light and bulky, some deteriorate more rapidly than others, some are odoriferous, and still others absorb moisture. Special treatment is needed for many types of merchandise normally carried in the wholesaler's warehouse, all of which is part of the function of maintaining large reserves of stocks for customers.

Delivers Goods Promptly.—A retailer can get his orders filled by most wholesalers on the same day they are received and have the goods delivered to the store in a short time. This is made possible, first, by the fact that the wholesaler ordinarily carries adequate merchandise stocks in anticipation of requirements, second, by the convenient location of the wholesaler's warehouse close to his trade, and third, by the choice of transportation facilities for delivery purposes. In ordering directly from the factory, it is frequently necessary to wait until the goods are produced, particularly during peaks of seasonal activity. Besides, the factories are usually at a considerable distance from the retailer. Finally, distant shipments can usually

be made only by railroad or water transportation, whereas the wholesaler can utilize interurbans or trucks as additional means of transportation. Local wholesalers generally deliver the goods on the same day they are ordered, at least to customers located in the same city or in the area directly tributary to it and within truck delivery radius.

Prompt delivery service rendered by wholesalers is responsible to no small degree for their success in a number of lines of trade. The adoption on the part of retail merchants of the buying policy, commonly known as "hand-to-mouth" buying, has helped considerably in bringing the wholesaler's service to the forefront. Such a policy, obviously, cannot be adhered to unless prompt delivery of orders is assured. When quick delivery service is available, there is no longer any need for "starving" the stock in some lines and over-stocking on others, nor is there any valid reason for being "out" on some items for any length of time. Prompt delivery service also enables the retailer to keep his stocks fresh and clean since he can quickly replenish items currently demanded and make the necessary seasonal adjustments with little waste of time and effort. All of this helps to maintain a good will that is essential to the wholesaler's success as well as that of the retailer.

Makes Possible a Faster Retail Stock Turnover.—The speedy delivery of a large assortment of carefully selected and reasonably priced merchandise by the wholesaler makes possible a more rapid rate of stock turnover for the retailer. This is a great advantage to the retailer since it permits him to operate with a smaller capital and at the same time provides him with an adequate stock of fresh merchandise. Contrast this with pre-civil war days when sources of supply were so remote and transportation facilities so inadequate that the retailer had to maintain as much as a six months' supply of many items. Not only does the modern method improve the retailer's profit opportunities but it provides the ultimate consumer with much fresher merchandise.

It is almost axiomatic that successful business is predicated in large part on a reasonably rapid stock turnover. Speeding

up turnover through purchases from the wholesaler, generally results in the reduction of the retailer's operating expenses, involving less interest on the investment in stock, less insurance cost on merchandise, smaller store space for a given volume of business, and less heat and light expense. It eliminates the investment of working capital in sluggishly moving goods and substitutes for it an active investment in fresh, salable merchandise.

Unfortunately, many retailers have abused the privilege of this valuable service provided by the wholesalers. Not content with buying in reasonably small quantities such as a single case or dozen they have compelled the wholesaler to "break bulk" for them. By this is meant opening the original boxes or cases in which the goods are packed in the factory in order to deliver as few as one or two packages to the retailer. The retail druggist often orders in lots of ¼ or ½ dozen bottles or boxes. Such extreme piecemeal buying is obviously uneconomical and undesirable. Judicious buying by the retailer is essential to secure the full benefit from the wholesaler's service. A moderate buying policy which takes fair advantage of the existence of wholesalers' stocks to maintain the low inventories of fresh merchandise so necessary to a rapid stock turnover is thoroughly justifiable. On the other hand, the insistence upon uneconomically small orders from the wholesaler is as completely indefensible as reasonable purchasing is justifiable.

Wholesaler Extends Credit to Retailers.—In addition to the functions of physical supply such as have been discussed in the foregoing paragraphs the wholesaler also aids the retailer in financing his business operations. Through the extension of credit to his customers the wholesaler furnishes a much needed financial assistance. Many retailers in the food trade as well as in some other lines of business have no banking connections whatever.[7] They rely solely or largely on the wholesale house for financial help. Without this aid many retailers

[7] It is of course possible for commercial banks to extend credit to retailers but the fact remains that they do not cover the retail field apart from the larger-scale stores. It may be argued that the wholesalers should turn this function over to the banks but until the banks broaden their policy this would prevent many retailers from receiving credit services.

would be forced out of business and others would be prevented from entering business regardless of ability and merit. In some lines of wholesaling as much or more money is tied up in the wholesaler's financial receivables as in merchandise inventories. The wholesaler's assistance to retailers, measured in accounts receivable, frequently represents a third or more of his total assets. It is quite possible that the wholesaler has gone too far in this direction and inadvertently assumed the rôle of banker, but it is indicative of the vital necessity of this service to retailers.

In the absence of the wholesaler, there is no doubt that some credit would be extended to retailers by the manufacturer. However, a much larger number of retailers would be refused such accommodations, partly because the amount of business involved when buying a single item or a small line from a manufacturer would be too small to justify a credit investigation and the opening of an account, and partly because of the distance separating buyer and seller. This would even handicap retailers that are in good financial circumstances. From the standpoint of the manufacturer the loss of an order from a retailer because of refusal to sell to him on credit, would indeed mean very little, as compared to the relative difficulty and costliness of securing necessary credit information, keeping in touch with local situations, and in collecting overdue accounts at a distance. On the other hand, the wholesaler who sells a large number of items finds an important outlet even in the smallest retailer. Consequently, each retailer is treated with deference and special consideration. Furthermore, the wholesaler's proximity to the trade and his constant personal contact, usually through his salesmen, make it possible for him to collect accounts with a minimum of expense and effort. The wholesaler's credit policy, therefore, is usually constructive, intelligent, and flexible, although frequently it results in encouraging small-scale retailers whose volume is too small to justify the service.

The credit arrangement is also advantageous to the retailer from still another viewpoint. Instead of arranging his credit with several hundred manufacturers, the retail merchant establishes his credit with a limited number of wholesalers in his

territory. The annoyances involved in establishing credit, which usually makes necessary the furnishing of references, a financial statement, and other details, aside from the delay incident to a credit investigation, are too well known to require elaboration.[8] It is also much easier and simpler for the retailer to keep his credit in line and in sound condition, and to take cash discounts when dealing with fewer sources of supply. Thus, the wholesaler facilitates the establishment of credit relations, and because of the retailer's concentration of purchases and the wholesaler's continuity of selling contact, more credit is extended to the retailer than would have been made available to him by manufacturers.

Wholesaler Guarantees the Goods and Adjusts Complaints.—Even though the goods sold by the wholesaler do not bear his own label, he usually guarantees the quality of the merchandise. Instead of investigating the merits of each item, the retailer relies upon the wholesaler to give him sound information because he knows that the wholesaler, through his trained buyers, is in a better position to study the merits of the goods and to investigate the guarantees made by the producers. Thus the retailer has learned to depend upon the wholesaler's ability to measure the quality of the goods and the reliability of their makers, and to stand between the retailer and manufacturer with the assurance that all factory claims and guarantees are enforced. The wholesaler thus provides the retailer in effect with a double guarantee.

This service is of particular moment in lines of merchandise that are of a technical or mechanical nature, such as automotive equipment, certain types of hardware and electrical goods. Complaints are at best annoying both to the complainant and to the vendor. If such complaints had to be made by the retailer to scores or hundreds of factories the annoyance might become unbearable, let alone the expense involved in correspondence. In buying from the wholesaler, the latter serves as the clearing house for all complaints and adjustments, which are

[8] See T. N. Beckman, "Credits and Collections in Theory and Practice," New York, McGraw-Hill Book Co., Inc., revised edition, and W. A. Prendergast and W. H. Steiner, "Credit and Its Uses," New York, D. Appleton-Century Co.

handled by the same personnel in a single office. The wholesaler therefore becomes quite familiar with the problems of the retailer and the best way of handling them, usually to the satisfaction of all concerned.

Wholesaler Renders Advice and Assistance to Customers.—Since the wholesaler's welfare, in fact, his very existence, depends, in the last analysis, upon the success of his customers it behooves him to render to the retailer whatever assistance he can in the solution of his merchandising and store management problems. Inasmuch as his future is linked with that of the retailer, the wholesaler must devote a great deal of time and intelligence to the upbuilding of this retailer on whom he so definitely depends. It is, of course, the wholesaler's first duty to supply the retailer with a well-rounded stock of good merchandise, but with this his task is but partially accomplished; it is not complete until he has provided the retailer with a merchandising service which enables him to maintain a satisfactory stock turn, i.e., to sell his goods at a profit within a reasonable time.

While some of the assistance to retailers can be given by the wholesaler direct from the latter's headquarters, much of it is usually rendered through his sales force. The wholesaler's salesmen are peculiarly fitted to render valuable assistance to their customers. Their intimate contact with many retail merchants and their opportunity to observe the practices and policies of successful retailers, together with their knowledge of market conditions, make them a fountain of valuable information from which every progressive retail merchant should drink freely and deeply.

As another important aid to the retailer, the wholesaler's salesman practically acts as his stock clerk. The retailer may be too busy waiting on customers to note which items of the thousands he carries are running low and require replenishment. Some of them usually have been noted in the retailer's "want book." These are copied by the wholesaler's salesman, who then sweeps his sharp eyes over the retailer's stock in search for the low spots. In addition, he advises the retailer as to what

goods are likely to sell best in his store and in what amounts. Since the same salesman often calls upon the retailer year after year and at frequent intervals, a very close personal relationship may develop between them. The retailer relies upon the wholesaler to keep him informed on market conditions such as possible price changes and of special opportunities for buying in advantageous quantities.

Another service which the salesmen of the wholesaler are in a position to give is advance information on new items. This is true because most factories introduce their new articles first through the wholesaler, in order to get quick national distribution. Knowing the local conditions and whether or not the new line is taking hold in his territory, the wholesaler is able to give his trade sound advice. These new lines are valuable because up-to-date merchandise freshens the retailer's stock of goods. The progressive wholesaler is, therefore, constantly on the alert for goods that his customers can sell at a profit. He is equally quick in discerning changes in demand that will outmode certain items so that information to that effect can be passed on to the retailer in order that the latter may dispose of them before they become obsolete. It was this type of wholesaler, for example, who first pointed out to the hardware retailer that radio was a big item for such stores and gave concrete evidence of that point by reference to dealers who had made a big profit on such merchandise.

In addition to this service of keeping the retailer well informed, the modern wholesale house frequently renders a more or less complete merchandising service, which may involve a number of things. It may call for the provision of permanent "leaders," i.e., goods that are handled on a very narrow margin but which are carried regularly as part of the normal stock. It may involve providing the retailer with "specials" which can be featured at intervals at greatly reduced prices, but which are offered but once and are not a part of the regular stock of the house. It may necessitate the featuring of special events and contests, or it may comprehend a plan for a new store arrangement, window displays that "pull," counter displays that have proved effective, advertising assistance, methods of collecting

overdue accounts, how to handle finances, and a number of other definite aids in the solution of the retailer's special problems. Progressive merchants generally welcome such suggestions when made with tact and in a non-paternalistic manner.

A new impetus to the wholesaler's merchandising services, developed for the retailer's benefit, has resulted from the inauguration of selective distribution. Under this plan, which will be discussed more fully in a subsequent chapter, a given wholesaler serves an exclusive group of retailers to whom he alone sells the bulk of such retailers' requirements. A greater community of interest between wholesaler and retailer is fostered thereby which serves as a means of cementing them into working units having the strength of a single business, coupled with the advantage of individual ownership. Still other methods have been utilized in certain trades to help the retailer. In the plumbing trade, for example, jobbers may maintain complete showrooms to which plumbers are urged to bring their customers in order that the latter may have a better opportunity for the selection of fixtures and equipment. This arrangement frequently saves the plumber the expense of operating a showroom of his own, and, since that of the wholesaler is much more complete and modern, sales to consumers are facilitated. Other wholesalers are prepared to install complete accounting systems in the retail stores which they serve, conduct demonstration sales on the retailer's premises, and furnish whatever other aids may be deemed advisable. Some wholesalers have even gone so far as to establish model stores for the benefit of customers who care to take advantage of the wholesaler's special knowledge and experience.

It may be said that such advice and assistance would, no doubt, be given by the manufacturer and his salesmen, were the wholesaler non-existent. This is, however, a matter of conjecture; certainly the advice would not be likely to be as unbiased and impartial. Each manufacturer's salesman would, in all probability, attempt to push his own line of merchandise at the expense of competing goods, even though such procedure might prove detrimental to the retailer on whom he would call at relatively infrequent intervals. Because of the pressure

brought to bear by a horde of manufacturers' salesmen, the average independent retailer would be loaded up with excessive inventories, resulting in less frequent purchases, slower stock-turnover, poorer merchandising, and consequent higher prices to consumers.

As a rule, high-powered salesmanship and constructive dealer aid do not go together. The average wholesaler has learned that such a policy is not sound. His salesman, very often carefully trained, frequently calls upon a given retailer year after year. He knows that it is not to his advantage to discriminate between the goods of different manufacturers. He will usually recommend goods which he knows can be sold best in his territory. He may, however, be partial to goods which bear the wholesaler's private label, but he realizes that his success is bound up with that of his customers, and he will not normally attempt to oversell or consciously misdirect their purchases. He is not a high-pressure man, for his function is not to make one-time sales but to develop steady and profitable customers.

Wholesaler Helps Retailers in Time of Stress.—It is a well-known fact among credit managers that in the handling of any adjustment of an embarrassed debtor, the small creditors are the most troublesome. They invariably insist upon full payment or upon the liquidation of the account, probably because they have so little at stake and they know that their vociferousness and stubborn attitude will result in full payment even though it be at the expense of the large creditors. Thus, should a retailer buy directly from hundreds of manufacturers, the amount owing each of them might be so small that in time of stress he would be pressed for payment of many small amounts coming due simultaneously, which might jeopardize his entire business. On the other hand, when a retailer purchases his goods from wholesalers, he generally concentrates his buying and confines his patronage to a few well-selected houses. In times of financial embarrassment, the wholesalers, having much at stake in the account and anxious for continued patronage of the retailer, are likely to treat the account with great care. They frequently make every effort to preserve the

business and give the retailer another chance so long as he is honest and has an opportunity to extricate himself from his financial difficulties, even though it necessitates an extension of time or a composition settlement.

The value of this aid afforded by the wholesaler was dramatically demonstrated during the several years of severe depression beginning with 1929. During this time many retailers would have been forced to close their doors had it not been for the special consideration shown them by the wholesaler. A study of the commercial history of the United States reveals the fact that such was also the practice of wholesalers immediately following the Civil War, in the years of depression beginning with 1873, and again during the depressed period commencing with 1893. It is a service and extra protection which means a great deal to every thoughtful and far-sighted merchant in this country.

CHAPTER 9

THE REGULAR WHOLESALER AS A DISTRIBUTOR OF CONSUMERS' GOODS

Contrary to the proverbial admonition, the regular wholesaler can and does serve two masters, and when his business is efficiently operated the benefits inure to all parties concerned, including the consuming public. In the preceding chapter the wholesaler's service to the *retailer* and to other types of customers who buy from him was discussed. In the present chapter the wholesaler's work as a distributor of the output of the *manufacturer of consumers' goods* will be analyzed. For this purpose the characteristics of the typical manufacturer should be borne in mind. The typical manufacturer is one who either operates on a small scale, produces a single commodity, or a narrow line of items of relatively low unit value. This, of course, is true of the majority of the manufacturing plants in this country.[1]

For many years there has been a general scramble for a shorter route from producer to consumer, on the erroneous assumption that the fewer the links in the chain of distribution the smaller the cost of marketing. In consequence of this hypothesis the wholesaler has been squeezed from all sides. Especially has there been a wave of antagonism against him during the past two decades. Medieval thinking has given rise to the general feeling that the wholesaler is not a real producer but a parasite. Much of this criticism has come from manufacturers. It is, therefore, significant to note the extent to which wholesalers serve manufacturers in the distribution of their goods.

[1] In a special study made by one of the authors it was found that 97% of all manufacturing establishments were of relatively small size, employing no wage earners or less than 250 employees per plant. See T. N. Beckman, "Survey of Reports of Credit and Capital Difficulties Submitted by Small Manufacturers," prepared for the Business Advisory Council, Department of Commerce, Washington, D. C., U. S. Government Printing Office, 1935.

In broad terms it can be said that the wholesaler undertakes the task of selling and distribution for the manufacturers. He ascertains the demand for the goods in his territory, places orders in advance, and takes the merchandise from the hands of the producer, usually in car lots. He normally pays cash within a few days or upon receipt of the goods, stores the merchandise until needed by the trade, seeks out the many retailers and other prospective customers in his territory, takes their orders, and makes deliveries to them in small shipments which would be burdensome and expensive to the producers. Furthermore, he assumes all credit hazards and otherwise effects savings to the producer. The specific ways in which these services are rendered will be dealt with in the following sections.

The Wholesaler as a Distributor of Manufactured Goods.—The position of the wholesaler as a distributor of manufactured goods is revealed by the fact that 30.7% of the goods measured in terms of dollar values were sold directly from the factory to wholesalers. Another 3.4% of the goods reached wholesalers via manufacturers' sales branches.[2] These figures are much larger when confined to consumers' goods, which make up the bulk of the wholesaler's business. Table 12 shows that of total sales of consumers' goods made by manufacturers, approximately one-half went through the hands of the independent wholesalers. There was a total of 64,049 wholesalers proper in 1929, which handled these goods for the manufacturers, while in 1933 the number of similar outlets had increased to 67,165. Sales volume, however, declined from $20,295,188,000 worth of manufactured goods in 1929 to $9,219,272,000 in 1933. A significant feature of the wholesaler's business as a distributor of manufactured goods is the large number and wide variety of manufacturing industries in which wholesalers are used for the distribution of goods. Practically every industry in the country makes use of the regular wholesaler to some extent. This varies, of course, from trade to trade, and within a given trade, as will be shown in a later

[2] "Distribution of Sales of Manufacturing Plants," Fifteenth Census of the United States, Washington, D. C., U. S. Government Printing Office, 1932.

chapter. In certain industries wholesalers are used almost exclusively, while other industries distribute but small quantities through this institution.

TABLE 12. DISTRIBUTION OF MANUFACTURERS' SALES OF CONSUMERS' GOODS THROUGH WHOLESALERS: 1929
(In billions)[a]

Total sales of manufacturers reported by channels of distribution....	$63.4
Consumers' goods reported by channels (55.2% of $63.4 billions)....	$35.0
Total sold to wholesalers (34.1% of $63.4 billions)................	$21.6
Consumers' goods sold through wholesalers (80% of $21.6 billions)..	$17.3
Percentage of consumers' goods sold through wholesalers ($17.3 : $35 billions)..	49.4%

[a] Through a special computation made by the authors for the Bureau of the Census, it was found that 44.8% of all manufactured goods in 1929 were industrial goods and 55.2% represented consumers' goods. The wholesale census shows that during 1929 wholesalers proper did a total volume of business amounting to $29,556 millions, of which $5,660 millions or about 20% consisted of sales to industrial consumers. See Fifteenth Census of the United States, Distribution, Vol. II, Wholesale Distribution, pp. 6, 7 and 81, Washington, D. C., U. S. Government Printing Office, 1933.

The foregoing facts are rather significant in the face of the criticism directed against the wholesaler, for it seems reasonable to believe that alert manufacturers who have given considerable thought to their marketing problems would tend to adopt the most efficient channels of distribution for their products. The wholesaler's very persistence in the face of extremely competitive conditions is, in a way, evidence of his economic worth.

The Wholesaler Plans Distribution for the Manufacturer.—Due to his peculiar and strategic position in the marketing process, the wholesaler is thought to be in the most favorable position to interpret and evaluate the facts bearing on consumer demand. This is an important function, since it is the basis for all manufacturing, wholesaling, and retailing activities. Neither the average manufacturer nor the average retailer has thus far qualified for the position. The manufacturer is generally preoccupied with production problems since the successful production of even a single article or line is an accomplishment that usually calls for the continued application of all his ingenuity. Furthermore, the manufacturer is too far removed from the ultimate consumers to procure easily a comprehensive quantitative and qualitative market analysis, which will supply

him with the essential facts concerning possible consumer reactions to his goods. The retailer, on the other hand, is too close to the consumers and is overly influenced by unimportant local movements and conditions. The perspective of both is comparatively narrow and too limited to gauge accurately consumer wants and attitudes.

The wholesaler, however, is well qualified to take over this work for the manufacturer. He specializes in selected lines of merchandise and in dealing with certain types of customers in a given territory. He knows, or is in a position to discover, the existing and potential demand of his trade and that of ultimate consumers within the radii of his normal operations. Thus he is in a strategic position to solve with skill such problems as the determination of the nature of the goods that can be sold in his territory; how much of these goods can be profitably sold; the type of package that will be most suitable; the size of the unit that will make the greatest appeal to the trade; and many other pertinent points which can be adequately appraised only by a specialist in distribution. Unfortunately, the typical wholesaler, although in a position to appraise the market scientifically and accurately, has not taken full advantage of his opportunities. His neglect of modern techniques of marketing research is one of the contributing causes of his unpopularity with manufacturers.

Establishes and Maintains Connections with Retailers.— The wholesaler, once he becomes well established in his area, provides the manufacturer who uses his services, with a definite clientele of relatively permanent customers. The personal acquaintances which his salesmen develop with buyers through frequent contacts with the trade, in many lines of business as often as twice a week, enable them to break down unfounded sales resistance and insure more favorable consideration of their sales arguments when presenting new lines of merchandise. In the preceding chapter it was pointed out that the retailer would find it practically impossible to contact the thousands of manufacturers to procure his supply of goods. The manufacturer is faced with the same problems for he in turn would find

it costly and unsatisfactory to attempt to reach retailers who are legion. There are in the United States over a million and a half retail outlets, 89% of which are independently owned, which would require separate contacts.[3] In the grocery business alone there are 303,910 retail stores, 253,036 of which are owned by independents. Grocery stores are not, however, the only retail outlets for the distribution of food products. To them must be added over 200,000 restaurants and other eating places; 170,000 stores belonging in the food group other than grocery stores, such as candy and confectionery stores, delicatessen stores, meat markets, dairy-products stores, and the like; and probably another hundred thousand stores handling food items such as the country general stores and certain department stores. Thus, there are in the neighborhood of three quarters of a million retail outlets of food products. For any manufacturer of a grocery article or of a small line of groceries to attempt to establish and maintain contacts with even a small fraction of these outlets would be most difficult and costly if not impossible.

In other lines of merchandise for which wide distribution is essential, the establishment and maintenance of contacts with retailers directly may not be so great a problem but it still is of monumental proportions. In the dry goods field it is estimated that there are nearly 200,000 retail outlets, consisting of department stores, limited-price variety stores, clothing and furnishing stores, general stores, and dry goods stores proper. In the absence of the wholesaler, a manufacturer of cotton piece goods, for example, would be required to organize a sales force of sufficient magnitude to reach and sell at least a substantial proportion of these outlets. Similarly, were the wholesaler eliminated, a manufacturer of drugs and chemicals would be forced to reach over 58,000 drug stores, and if the item were of the patent medicine type, a much larger number of stores would have to be cultivated since such items are also sold through other retail channels. Even the hardware manufacturer would find his task of selling directly to retailers one of considerable size, involving contact with about 33,000 hardware stores, and many other

[3] Census of American Business, Retail Distribution, Vol. I, U. S. Department of Commerce, May, 1935; also volume on "Chains and Independents and Other Types of Operation," Census of American Business.

retail outlets such as country general stores, electrical shops, and others that normally handle hardware items. With but relatively few exceptions, therefore, the undertaking on the part of the average manufacturer to sell directly to retailers without the intervention of the wholesaler, in so far as reaching the retail outlets alone is concerned, is one which few producers can hazard without risking their very business existence.

It should not be inferred from the foregoing that selling through wholesalers eliminates the need for a manufacturer's sales force. When the factory is small it may be that a single wholesaler or very few such concerns will absorb the entire output. Under such circumstances all of the manufacturer's selling can be done by one of the executives and a sales force may be unnecessary. However, when the plant is large and the output is greater than the amount which a few wholesale houses can handle, or when the manufacturer is unwilling to concentrate his selling lest his position become precarious in the future, a sales force must be maintained by the manufacturer in order to call upon wholesalers and other distributors at certain intervals as dictated by competition from other manufacturers producing parallel lines and by other circumstances.

The sales force, however, need not be very large. Instead of cultivating a total of three quarters of a million retail outlets for food products or a reasonable proportion thereof, the manufacturer of a food product need but call upon a substantial representation of 3,434 wholesale grocers handling a general line of groceries, and if specialty concerns are to be used as well, another 5,755 establishments are available. In the dry goods trade, most of the retail stores can be reached through some of the 489 general line dry goods wholesalers. Certainly it can be excellently cultivated through a selected number of the 3,000 wholesale establishments dealing in all kinds of dry goods including wholesalers who specialize in piece goods, in knit goods, and related lines. Likewise, instead of the drug manufacturer having a possible clientele of 58,000 retail drug stores to canvass, he can confine his activities to a portion of the 360 general line wholesale drug houses and 192 specialty concerns operating in that field. Again, in place of calling upon 33,000 hardware

stores, such stores can be reached through a number of the 692 general line hardware wholesalers and 452 specialty hardware wholesalers.[4] If the manufacturer desires to be more aggressive in the promotion of sales, he may enlarge his sales force to include missionary salesmen in order to cultivate the retail trade directly. The desirability of such a policy and the circumstances which may justify it will be discussed in a subsequent chapter.

Wholesaler Cultivates the Field Intensively.—Through the activities of the wholesaler goods may be presented to more retailers and with greater frequency than could possibly be done directly by producers. A brief look at the distribution of population in this country is supporting evidence of this statement. According to population statistics,[5] there were in the United States at the time of the last Census 16,598 incorporated places consisting of villages, towns, and cities. Of this number, 13,433 represented incorporated places in rural territory, 10,346 of which had a population each of less than 1,000 inhabitants. Towns and cities with population of 10,000 or more numbered only 982 as against 15,616 incorporated towns and villages of less than 10,000 inhabitants each. In addition, 36.4% of our people resided in other rural territory including farms and unincorporated towns and villages. Retail outlets are, of course, to be found in the smallest communities which necessarily complicates the problem of distribution coverage for a manufacturer's merchandise. In 1933, about 100,000 retail stores were located in small towns with a population of 5,000 to 10,000 inhabitants; approximately 92,000 stores were found in towns of 2,500 to 5,000 population; and somewhat over one-half million retail establishments—or exactly one-third of all retail stores in the United States—were located in places with less than 2,500 inhabitants or at country crossroads.[6]

From the foregoing facts it would appear that with few exceptions no manufacturer dealing in consumers' goods can afford to cover his territory very intensively with his own

[4] For the statistics quoted in this discussion see: Census of American Business, Wholesale Distribution, Vol. I, pp. A-5 and A-6, U. S. Department of Commerce, May, 1935.

[5] Fifteenth Census of the United States, Census of Population, Vol. I, p. 14, Washington, D. C., U. S. Government Printing Office, 1931.

[6] Census of American Business, Retail Distribution, Vol. I, p. 45.

sales staff. The expense involved would definitely prohibit him from calling upon retailers located in small towns and in rural areas. The wholesaler, on the other hand, because of the large variety of merchandise which he has to offer to his customers, usually can afford to penetrate to a large percentage of all retailers in every city, town, village, or hamlet. Due to the great number of items carried, the average order from even a small retailer may be expected to return a gross profit sufficient to cover necessary traveling and other expenses incident to securing the order. Without this service, a large number of merchants and consumers located in small towns and in other rural areas would be seriously handicapped and inconvenienced. Many very small-scale retailers would no doubt be forced out of business with consequent hardship to them and to the community, at least until such time as they found profitable employment elsewhere. It should be noted here that the average wholesaler often goes too far in attempting to service uneconomic retail outlets of this type. While this may prove to be a service to the manufacturer in disposing of his wares it results in an undue burden and frequent loss to the wholesaler. The latter would be much better advised to restrict his sales to profitable accounts through a more scientific use of selective selling.

Most of them continue, however, to cover the field very intensively, much to the benefit of the manufacturers whom they serve. Even in the larger communities there are a great many retailers supplied by wholesalers whose orders are too small to justify direct selling on the part of manufacturers. Almost two-thirds (982,193) of all the retail stores in the United States had an annual volume of business of less than $10,000 in 1933, while over 260,000 additional stores reported annual sales ranging from $10,000 to $20,000.[7] Except for those retail establishments that specialize in a single line of goods such as gasoline and oil, stores with a small volume of business operate on such a small scale that their individual orders on any one item or group of items cannot be large enough to justify direct contact with producers. In fact, it is not uncommon to find on a

[7] *Ibid.* p. A-14.

retail merchant's bill of hardware, amounting to $50 or $75, items from 20 or more different factories, while in some sections of the country orders from such merchants may average about one dollar per item. A typical retail druggist's order may consist of some 30 items, with a wholesale value of approximately $20. It is estimated that in about 70% of the items ordered from wholesale druggists the wholesale price per item is less than $2.[8] An analysis of a wholesale grocer's operations showed an average of 7.53 items per order with an average sales value per order of $33.76.[9] It would be economic folly, therefore, for any manufacturer of a single product or of a limited line of merchandise to cultivate such trade; but for reasons pointed out above, the wholesaler may be in a position to render economical service to many of these small retailers in the larger cities as well as to those in the rural sections and less populated territories. Parenthetically it might be noted here that the wholesaler's catalog is of considerable value to manufacturers in intensively cultivating certain territories. The wholesaler's catalog is usually a better selling help than is the manufacturer's because the average life of the manufacturer's catalog, sent by mail to the retailer, is of short duration. Few retailers have developed an orderly procedure for maintaining them for quick and ready reference.

As long as great distances separate manufacturers and retailers, as long as many manufacturers are relatively small-scale operators and produce a limited line of merchandise, as long as many retailers are located in small communities and in otherwise inaccessible places, and as long as large numbers of retailers operate on a small scale and buy in very small quantities, so long will wholesalers be an indispensable medium for translating concentrated production into widely diffused retail distribution.

Wholesaler Aids in Stabilizing Production.—The wholesaler usually orders his goods from the manufacturer considerably in advance of the needs of retailers and consumers,

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[8] H. J. Ostlund, "Cost Analysis for Wholesale Operations with Special Reference to Wholesale Druggists," p. 576, N.A.C.A. Bulletin (National Association of Cost Accountants), Dec., 1930, Sec. I.

[9] "Wholesale Grocery Operations," p. 38. Distribution Cost Studies—No. 14, Bureau of Foreign and Domestic Commerce, Washington, D. C., U. S. Government Printing Office, 1932. A number of special studies made by one of the authors disclosed equally startling results in the grocery specialty and automotive businesses.

which enables the manufacturer to take fuller advantage of a planned production schedule. For example, canneries of food products sometimes regulate the quantities they produce almost entirely by the volume of advance orders placed by wholesalers. Many dry goods factories book future orders from wholesalers for large quantities of merchandise. It is known that in the middle twenties, wholesalers in the cotton-goods trade placed advance orders ranging from one-fourth to three-fourths of their total purchases of piece goods.[10] Similarly, manufacturers of seasonable hardware items, such as wire screens, lawn mowers, sleds, ice skates, stoves, and numerous other products of like nature, depend upon the wholesaler to place his orders in advance, and to carry seasonal stocks of such merchandise in his own warehouses, which relieves the manufacturer of the risk involved were he to produce for stock. In this wise the manufacturer can better gauge his markets with the resultant more intelligent control of raw material purchases and production schedules. A more uniform utilization of plant and equipment due to a somewhat stabilized demand, tends toward increased efficiency in production, which in turn should enable the manufacturer to give the wholesaler lower prices.

The wholesaler's activities which bring about advance ordering from sources of supply as just noted, works as a stabilizing influence in another way. In critical times the manufacturer who sells through wholesalers does not feel the curtailment as sharply as if he sold directly to retailers. In other words, the wholesaler acts as a shock absorber, and the producer has additional time to make adjustments.

The manufacturer has lost some of the advantages of uniform production and economical operation because of the "hand-to-mouth" buying policy of many wholesalers in recent years. On style goods, particularly, wholesalers have been accused of failure to commit themselves sufficiently in advance to insure complete and timely production and distribution. No doubt, rapid changes in style and altered conditions are responsible for much of this hesitancy, but reasonable cooperation between producers and wholesalers will remedy the situation at least in part.

[10] "Distribution of Textiles," Harvard University, Bureau of Business Research, Bulletin 56, 1926.

The fact remains, however, that despite the shortening of the period between the time an order is placed by the wholesaler and the goods are demanded by the retailer, the order is still given earlier than would likely be true of more direct distribution.

Wholesaler Provides Storage for the Manufacturer.[11]—As has been pointed out previously, one of the most important functions of the wholesaler is to maintain a complete and adequate stock of goods for the convenience of retailers. In carrying out this function, the wholesaler also renders a valuable service to the manufacturer. It was noted in the preceding section that the wholesaler places his orders considerably in advance of demand by retailers and consumers. This enables the manufacturer to ship his goods as fast as they are produced, thus transferring the storage function to the wholesaler. The degree to which this task of storage has been transferred to the shoulders of the wholesaler can be judged from the large inventories which may be found in his warehouses at any given time. At the end of 1929, the stocks of merchandise in the warehouses of wholesalers proper amounted to $3,382,558,000 or 11.4% of their total sales during the year.[12] At the end of 1933 when prices of goods were considerably lower and hence a larger physical volume was represented per dollar value, such wholesale organizations reported stocks on hand valued at nearly $2 billion ($1,982,758,000), or 15.3% of their sales.[13]

It is generally recognized that the wholesaler can probably store goods with greater economy than either the producer or retailer. Given a certain amount of storage space, labor, and equipment, the wholesaler can utilize them to greater advantage by virtue of the comparative evenness with which goods flow in and out the year round, and the quantity of merchandise that is being stored regularly. Unlike the manufacturer, the wholesaler obtains his goods from various sources, serving as a reservoir into which the products of many producers constantly

[11] For a discussion of this point see William Campbell, "Wholesale and Retail Trade," pp. 10-11, London, Sir Isaac Pitman & Sons, Ltd., 1929.

[12] Fifteenth Census of the United States, Distribution Vol. II, p. 64. In 1935 their merchandise inventories amounted to $2,057 million, or 11.7% of sales.

[13] Census of American Business, Wholesale Distribution, Vol. I, p. 69.

flow, so that the facilities may be utilized to capacity. Furthermore, a given space may be assigned to several types of merchandise if the demand for such goods is of a seasonal nature and the seasons dovetail. Thus, it is not uncommon for a hardware wholesaler to store in a given space such items as sleds and, as soon as the season changes and most of the sleds are sold, to devote the same space to wire screening and the like.

It is no doubt true that the full-line manufacturers, or those operating on a large scale and supported by ample financial means, may provide their own warehouses at certain distributing centers, but the smaller or short-line producers usually find it to their advantage to pass the bulk of this function on to the wholesaler. The assumption of the storage function by the wholesaler leaves the manufacturer free to devote his time and energy to production. He need not provide facilities for the storage of large quantities of goods, or worry concerning methods of financing these inventories, or assume the hazards resulting from deterioration, theft, destruction by fire, or unfavorable price fluctuations. Any attempt by wholesalers to shift the responsibility of performing these functions tends to jeopardize their usefulness if not their very existence. When the wholesaler strives to speed the flow of goods through his warehouses beyond very definite limits, he fails to discharge one of his most important functions. In fact, in view of the retailer's desire to buy frequently and in small amounts dictated by the hand-to-mouth policy mentioned above, the assumption of the storage function by the wholesaler takes on greater significance, and becomes even more imperative than before. He should not, therefore, try to shift this function back to the producer, unless he wants to subject himself to just criticism and endanger his position. Once a manufacturer provides the necessary storage facilities at points of consumption he may next be led to undertake direct selling to the retailer, a procedure which may be quite uneconomic for all concerned and which leaves the wholesaler without a source of supply.

Additional Functions.—The wholesaler performs other important services for the manufacturer. For one thing, he

effects savings in transportation charges for the producer as well as for the retailer. In selling to wholesalers, the manufacturer makes a few large shipments instead of the many small ones which would be necessary were he to sell directly to retailers. The consequent reduction in the number of orders and shipments results in substantial economies in packing, billing, shipping, and accounting.

The wholesaler also gives valuable assistance to some manufacturers by supplying them with financial support. Sales of goods through the wholesaler enables the small and medium-sized manufacturer to operate on limited capital. Since the wholesaler provides for the warehousing or storage of the manufacturer's output, it is on his shoulders that the cost of carrying adequate inventories devolves. Because of his stronger credit position the wholesaler normally pays for merchandise immediately upon delivery, discounting his bills when presented for payment, or very shortly thereafter. In some lines, as in the fruit and vegetable canning industry, where the entire output of a plant may be purchased by a wholesaler on contract for future delivery, financial assistance is rendered by the wholesaler at the beginning of the production season in the form of a direct loan, or by indorsing the canner's promissory notes which can then be discounted at the bank. Thus the wholesaler aids the manufacturer financially by direct loans, and indirectly through prompt payment of bills for goods purchased, and through purchases on credit terms that are much shorter than those on which retailers ordinarily buy. Furthermore, as was pointed out previously, the wholesaler carries the accounts of retail dealers which, in his absence, would have to be carried and financed by the manufacturer.

The wholesaler also renders aid to the manufacturer by simplifying the latter's accounting procedure. Relatively few accounts are carried on his books and overhead is reduced through the employment of a smaller clerical force for the bookkeeping department. Orders from wholesalers are larger than those which retailers normally place, and fewer in number. These factors result in a considerable reduction in sales recording, invoicing, billing, and in other office expenses.

Finally, the wholesaler reduces the manufacturer's cost of credit granting. When a manufacturer uses the wholesaler channel of distribution he sells his goods to concerns, which, for the most part, enjoy a high credit rating, are well financed and whose chances of failure are much reduced. Not so in the case of sales to retailers. Most of them are poorly financed, have a low credit rating in the mercantile agency books, and otherwise present hazardous credit risks. In the absence of the wholesaler, the manufacturer would naturally be forced to assume some of these larger risks caused by credit extension, but which the wholesaler, partly because of his proximity to the trade, is better able to assume.

CHAPTER 10

THE INDUSTRIAL DISTRIBUTOR AND HIS FUNCTIONS

In order to gain an appreciation of the position which the industrial distributor occupies in the marketing process and the functions which he performs, it is necessary to treat briefly of the nature of industrial marketing, the type of goods that enter the industrial market, and the size of such market in relation to that for consumers' goods. It is further necessary to indicate the various channels through which industrial goods move to their ultimate destination.

Nature and Scope of the Industrial Market

Industrial Marketing Defined.—There appears to be much confusion about the meaning of the term "industrial marketing," despite the substantial book and periodical literature that has recently been produced on the subject.[1] In general, an attempt to define industrial marketing and to delimit its scope has been made from two distinct, yet closely related and frequently overlapping, points of view. One of the approaches centers about the *nature of the goods* that make up the industrial market, while the other focuses attention upon the *type of purchaser.*

From the standpoint of the nature of the goods, several conceptions are current among business men and marketing authorities. The narrowest conception, frequently held by business men, limits industrial marketing to those activities surrounding the purchase and sale of industrial machinery, equipment, and

[1] For recent books on the subject see: J. H. Frederick, "Industrial Marketing," New York, Prentice-Hall, Inc., 1934; R. F. Elder, "Fundamentals of Industrial Marketing," New York, McGraw-Hill Book Co., Inc., 1935; B. Lester, "Marketing Industrial Equipment," New York, McGraw-Hill Book Co., Inc., 1935; and V. D. Reed, "Advertising and Selling Industrial Goods," New York, The Ronald Press Co., 1936.

supplies by industries of the manufacturing type. A slightly broader view includes in industrial marketing the activities relating to all machinery, equipment and supply items, regardless of whether they are bought by industry in the narrow sense, by the professions such as dental and surgical equipment and supplies, by the service industries like barber and beauty parlor supplies and equipment, by transportation companies, or by other groups. Many of the trade publications in the industrial marketing field, such as *Mill Supplies* and *Industrial Marketing,* apparently follow this point of view. A third view conceives of industrial marketing as embracing the marketing and merchandising activities for all manufactured goods not intended for ultimate consumers. In addition to machinery, equipment and supplies, this would include the marketing of such semimanufactures as steel, textile fabrics, and lumber. However, a much broader concept and one on which most marketing authorities agree also includes all raw materials that come from the farms, mines and quarries, forests, oil wells, or as a result of fishing, hunting and trapping.

When viewed from the standpoint of the purchaser of the goods, the term industrial marketing is again subject to several diverse interpretations. In the narrowest sense it is said to apply to goods bought or used by industry, the term industry applying only to manufacturing concerns. While many business men still hold to this narrow view, ordinarily the term "industry" is used to include all producing establishments; i.e., manufacturing, mining and quarrying, construction, lumbering, and even public utilities and transportation. A third and somewhat broader concept of industrial marketing from the point of view of purchasers, includes all goods that are bought not only by producing concerns but also those purchased by service industries such as hotels, restaurants, theatres, and barber shops; by institutions, whether privately owned or governmentally operated, such as schools, hospitals, churches, and clubs, or by local, county, state, and Federal governmental bodies. A controversy generally arises as to whether *all* goods purchased by the above-mentioned types of business enterprise are of the industrial character. For example, those who adhere to this

third concept would naturally include purchases made by hotels and restaurants of tableware, kitchen equipment, and furniture, but are not so sure whether the food items that are prepared for sale to customers are a part of the industrial market or belong in the category of consumers' goods. A fourth view is to broaden the term industrial marketing to cover also purchases of goods by commercial organizations such as retailers and wholesalers, financial institutions, office buildings, and the like, when such goods are not bought for resale. However, none of the afore-mentioned concepts embrace the purchases of those millions of our people who are engaged in agricultural pursuits when such goods are bought for business purposes, namely, agricultural production. Even the broadest definitions now generally in use omit the latter from their scope.

It is the authors' considered judgment that the term industrial marketing should be used in a very broad sense to include all goods (whether in the form of raw materials, semi-manufactures which must be converted into more finished products, machinery, equipment, supplies, parts which are embodied without change in the finished product, containers and packaging materials, or other materials such as chemicals and wood pulp) which are bought for further processing, or which are consumed or used for business purposes, regardless of whether they are bought by farmers, manufacturers, construction contractors, commercial organizations, the service industries, governmental bodies, or others engaged in business pursuits so long as such goods are not bought for personal consumption or for resale in the same form. Any other definition of industrial marketing appears to be arbitrary and in violation of both sound logic and principles. According to this definition the terms industrial marketing and wholesaling are not correlative. Wholesaling, in the first place, as defined in Chapter 2, is more inclusive since it embraces the marketing of consumers' goods, which are bought for resale in the same form and without further processing, as well as the distribution of industrial goods. Ordinarily, industrial purchases are made on a wholesale basis, and *all* industrial marketing is a part of wholesale distribution, in theory at least. Practically, as much of the industrial mar-

ket as can actually be measured should be recognized as a part of the wholesale business of this country.

Size of the Industrial Market.—No one can deny the tremendous importance of the industrial market. Nevertheless, it is believed that industrial marketing enthusiasts have generally overestimated the size of such market, measured in dollars worth of goods sold for industrial purposes as broadly defined above. As part of the first Census of Distribution taken in 1930 for the year 1929 an estimate was prepared showing what part of the goods manufactured during 1929 was ultimately sold to industrial consumers and what part was sold to ultimate or home consumers. As shown in Figure 2 in Chapter 6, of all *manufactured* goods sold during the year, 44.8% was for industrial consumption and 55.2% for use by individual or home consumers. Thus, the industrial market absorbed $28,374,350,000 of manufactured products. To this figure must be added approximately four-fifths of the $10,146,720,000 goods sold by farmers during that year (about one-fifth of the farm products being consumers' goods); the great bulk of the $2,392,650,000 of products from mines and quarries (some of the coal being sold for home consumption); the entire $1,280,417,000 of crude petroleum sold during the year; the $1,100,000,000 of the products of the forests; a large part of the $105,970,000 products of fishing; all of the $20,000,000 of the products of hunting and trapping; and about one-half of the $4,924,000,000 of goods that were imported during the year since many of the imports were in the form of industrial goods (see Table 7). When these figures are added together, the industrial market seems to have absorbed during the year 1929 approximately $43 billions worth of goods (at f.o.b. factory or point of import prices) instead of the $53 billions commonly attributed to it by most writers on the subject.

Thus in 1929 the industrial market absorbed approximately 51% of the total value of all goods produced for distribution, the consumers' goods market absorbing the remaining 49% amounting to $41 billions. For earlier and later years adequate estimates of the size of the industrial market may be

computed. Table 13 contains such estimates for the years 1919-1934 which reveal some very significant facts about the shifts in the volume of industrial goods through various stages of the business cycle and, even more important, in the relative flow of production into producers' and consumers' goods. It is noteworthy, for example, that the industrial market absorbed 58% of the total value of goods available for distribution in 1919 and a like amount in 1920. The incidence of the 1921 business recession is shown in the sharp decline to 48% of the total which also declined by nearly 48%. This was due to a combined drop in production of some 30% and in prices of about 58%. The next year showed a recovery of the share going into industrial goods to about 52% which seems to be a more normal ratio. Indeed, with the exception of 1923 the ratio remained close to 51% or 52% up to and including the year 1929. The average volume of industrial goods during this period was roughly $40 billions, which appears to be a normal figure for the pre-depression era. The effect of the depression is clearly revealed in the sharp drop in industrial production as evidenced by both the absolute and relative values of producers' goods. By 1932 only $12 billions worth of producers' goods were available for distribution and this sharply reduced volume made up but 36% of the total. There was a noticeable recovery in 1933 both absolutely and relatively, five out of the six billion dollar total increase in value being for industrial goods. This raised the ratio for the latter to 44%. The following year saw the reversal of this process, the consumers' market absorbing five out of the seven billion dollar increase, leaving the relative position of the industrial market lower than in 1933 with a ratio of 41%.

It should be noted that the foregoing analysis measures the flow of producers' and consumers' goods into the distribution process at the very portals of that process and before any very large part of the distribution costs have been incurred. It is only at this point that comparable figures are available. However, for purposes of comparison of the volume of actual business transactions in producers' and consumers' goods it may be

TABLE 13. ESTIMATED VOLUME OF INDUSTRIAL (PRODUCERS') AND CONSUMERS' GOODS, 1919–1934 [a]

(F.O.B. Point of Production or Importation)

YEAR	Aggregate Volume of Industrial (Producers') Goods		Aggregate Volume of Consumers' Goods	
	Billions of Dollars	Per Cent of Combined Value Producers' and Consumers' Goods	Billions of Dollars	Per Cent of Combined Value Producers' and Consumers' Goods
1919	$46	58%	$34	42%
1920	53	58	39	42
1921	23	48	25	52
1922	32	52	29	48
1923	41	55	34	45
1924	35	51	34	49
1925	41	52	38	48
1926	41	52	38	48
1927	39	52	36	48
1928	41	51	39	49
1929	43	51	41	49
1930	29	47	33	53
1931	19	42	26	58
1932	12	36	21	64
1933	17	44	22	56
1934	19	41	27	59

[a] Basis of estimates indicated below. Production indexes are those compiled by Y. S. Leong and published in the June, 1935, *Journal of the American Statistical Association.* Wholesale price indexes are those computed by the National Bureau of Economic Research; data for 1919-1928 were taken from F. C. Mills, "Economic Tendencies," p. 585, and those for 1929-1934 were furnished by the National Bureau of Economic Research to the Bureau of Foreign and Domestic Commerce in letter dated July 16, 1935. All indexes have been converted to 1929 base. Dollar values for 1929 estimated by the authors. Note close correlation for total volume of goods marketed in 1933 between this estimate and that in Table 9, Chapter 2.

YEAR	Producers' Goods				Consumers' Goods				Total Value of Goods Marketed (Billions) P(3b)+C(3b)
	Physical Production Index P(1)	Wholesale Price Index P(2)	Aggregate Value P(3) = (1) × (2)		Physical Production Index C(1)	Wholesale Price Index C(2)	Aggregate Value C(3) = (1) × (2)		
			Index P(3a)	(Billions) P(3b)			Index C(3a)	(Billions) C(3b)	
1919	75.1	142.1	106.7	$46	63.8	129.7	82.7	$34	$80
1920	76.8	161.4	124.0	53	66.6	142.5	94.9	39	92
1921	53.7	101.6	54.6	23	59.5	101.4	60.3	25	48
1922	72.6	102.2	74.2	32	73.9	96.6	71.4	29	61
1923	85.7	110.4	94.6	41	83.6	98.7	82.5	34	75
1924	76.8	106.5	81.8	35	83.1	99.2	82.4	34	69
1925	87.8	108.6	95.4	41	87.7	106.1	93.0	38	79
1926	91.0	103.8	94.5	41	90.1	102.7	92.5	38	79
1927	89.5	100.4	89.9	39	88.9	99.5	88.5	36	75
1928	93.3	101.6	94.8	41	94.5	100.8	95.3	39	80
1929	100.0	100.0	100.0	43	100.0	100.0	100.0	41	84
1930	77.4	88.5	68.5	29	86.8	93.3	81.0	33	62
1931	60.8	73.2	44.5	19	79.7	80.7	64.3	26	45
1932	43.6	64.9	28.3	12	71.0	70.8	50.3	21	33
1933	56.2	68.4	38.4	17	75.5	71.2	53.8	22	39
1934	55.9	78.6	43.9	19	82.6	79.6	65.7	27	46

argued that values at the point of consumption of each class of goods should be taken. On this basis, because the margins added to consumers' goods are much more substantial than those added to industrial goods, and, further, because consumers' goods follow a more round-about method of distribution, it becomes apparent that, from the standpoint of final dollar volume of business, the consumer market looms much larger than the industrial market. Consequently, it must not be concluded that the volume of trade in the industrial market is greater merely because a somewhat larger proportion of the goods produced enters such market. In fact, the opposite is true of the total volume of business transactions. Because consumers' goods go through more channels, involve more duplication in selling, and bear wider margins, the total volume of business done in that field is substantially higher than afforded by the industrial market, even when so-called inter-plant transfers are included among industrial transactions.

Types of Channels for the Distribution of Industrial Goods.—The marketing channels used in the distribution of agricultural products are discussed in Chapter 7. In this chapter will be treated only the marketing channels used for the distribution of industrial goods produced in factories. The marketing of other types of industrial goods, such as the products of extractive industries other than agriculture and imported products does not differ markedly from the methods covered in these two chapters. Indeed much of the volume of non-agricultural extractive production is so closely integrated with preliminary processing that the goods do not leave the hands of the producing companies until they have achieved the status of semi-manufactures or manufactured products.

Industrial goods issuing from the factories are generally distributed through four principal channels:

1. Direct from factory to user.
2. Through the manufacturer's own sales branches to user.
3. Through agents or brokers who do not take title to the goods but who operate as functional middlemen.

4. Through industrial distributors or through ordinary wholesalers who also deal in industrial goods although their principal business is in consumers' goods.

Complete data showing the relative importance of the above-named channels are available only for 1929. According to the computations made at that time, manufacturers sold during the year directly from the factory to industrial consumers almost 20 billion dollars worth of goods ($19,849,875,000). Through their own sales branches they sold to industrial users goods to the value of $3,582,976,950, and industrial distributors and other wholesalers handled such goods to the extent of $4,941,-499,002. While agents and brokers accounted for another $3,548,560,896 sales to industrial consumers, an unknown proportion of this latter amount consisted of non-manufactured goods such as raw materials coming from the farm, mines and quarries, and the like.[2] Thus, direct selling from the factory to user was the most important channel, followed by wholesalers and industrial distributors, manufacturers' own sales branches, and finally by agents and brokers, in the order named. No data are available for 1933 as to direct sales from factory to industrial user. However, data were collected on sales to industrial users through wholesale organizations of all kinds. Computations based on these data indicate that of all manufactured goods sold through wholesale organizations of all kinds, about 30% reached industrial consumers. Of this amount, wholesalers and industrial distributors sold approximately 45%, about 24% was sold by manufacturers' own wholesale branches, and the remainder was disposed of through agents and brokers.[3] These figures again indicate that next to direct selling from factory to industrial user wholesalers and industrial distributors are most important as a marketing outlet.

In interpreting these figures it should be pointed out that there is a wide difference in industrial commodities. While a number of classifications of industrial commodities have been made, for the purpose of this analysis it is significant to break

[2] Fifteenth Census of the United States, Distribution, Vol. II, pp. 6 and 81.
[3] For the year 1933 the computations were based on Table 5, p. A-36, Census of American Business, Wholesale Distribution, Vol. I.

down the field of manufactured industrial goods into two broad categories: first, those industrial goods, such as machinery and factory installations, which have a rather high unit value and therefore require a relatively heavy investment on the part of the purchaser and are, in addition, rather complicated, which necessitates high-grade technical engineering service from the seller for the benefit of the buyer. The second category of manufactured industrial goods consists of the great variety of parts, equipment, and supplies, and includes small machines, mechanical devices, and tools. This group of commodities does not require a major investment; neither is the necessity for engineering salesmanship a significant factor in their marketing. The great preponderance of direct selling of industrial goods by manufacturers either from the factory or through their own wholesale outlets is undoubtedly in the first of these categories of industrial merchandise. This is a field which lies outside the scope of the average wholesaler or industrial distributor and it is therefore unlikely that a very large expansion of business by such distributors may be anticipated in the sale of this type of goods. The unit cost of the separate items sold is usually great enough to justify the expensive selling techniques of direct marketing, and the complicated nature of most products in this group requires the combined efforts of engineering and selling which only the producer can adequately provide.

The sphere of the industrial distributor therefore lies in the second category of industrial goods which lend themselves to the specialized selling technique of such wholesalers. As might be expected, the data which are available indicate that a much larger proportion of such industrial goods are sold through wholesalers and industrial distributors than is true of industrial manufactured goods as a whole. In fact the industrial distributor and the wholesaler are apparently the most important sales channels for this type of merchandise. The reasons for selling direct from factory to industrial user or through manufacturer-maintained wholesale branches together with the conditions which favor such a method of distribution will be discussed more fully in Chapter 13. Similarly, the employment of the various agents and brokers and the conditions favoring their

use are the subject of discussion in Chapter 14. At this point it is quite pertinent to enquire as to who are the industrial distributors.

The Distributor and His Position

The Industrial Distributor.—This middleman operates very much like a regular wholesaler and performs most of the wholesale functions, as will be shown in the following pages. His chief point of difference lies in the goods he handles and the type of customer he serves. Whereas the regular wholesaler deals in consumers' goods which he sells principally to retailers for resale to ultimate or home consumers, the industrial distributor deals in industrial goods which he sells to industrial consumers or whose ultimate destination is the industrial user. Several different terms have been variously applied to this type of middleman. Common substitutes for the term "industrial distributor" are "supply and machinery distributor," "machinery dealer," "mill supply house," and "mill and mine supply house." In the various lines of trade the term "supply house" is often prefixed with the designation of the line of supplies handled, as "barber supply house," "dental supply house," or "janitor supply house." The newly coined term "outfitter" has also been used in the handling of equipment and supplies for hotels, restaurants, hospitals, steamships, and schools.

The Position of the Industrial Distributor.—The data relating to the number of industrial distributors and the volume of business they handle annually, meagre though they are, nevertheless are prima-facie evidence of the strength of the industrial wholesaler's position in the marketing structure. In 1929 there were as many as 3,432 establishments operated by wholesalers who were engaged principally in the distribution of machinery, equipment and supplies used for construction, manufacturing, mining, drilling, and transportation other than aircraft.[4] In a survey made in 1930 and 1931 of wholesale concerns handling equipment, tools, and supplies sold to indus-

[4] Fifteenth Census of the United States, Distribution, Vol. II, pp. 44 and 66.

trial concerns only, it was found that there was a total of 1,804 distributors in this field.[5] Of this number 443 hardware wholesalers and 314 wholesalers of plumbing and heating equipment maintained supply departments from which they sold to industrial concerns only; 844 confined their business entirely to mill supplies sold to industrial users; 70 sold machine tools; 99 handled principally contractors' supplies but operated mill supply departments as adjuncts to their business, and 78 operated as specialty distributors in the industrial marketing field. Still another survey showing the importance of the distributor reveals the fact that industrial consumers purchased on the average 34.34% of their mill supplies from distributors, while in certain industries the *bulk* of such purchases are made from distributors. For example, coal mines are said to buy 89.4% of their supply requirements from distributors; beverage plants, 87%; and milk products plants, 78%. On the other hand, railroads buy only 6.7% of their shop supplies from distributors, and petroleum refineries, 39%.[6] The true explanation of this position which the distributor has been able to maintain in the industrial field must lie entirely in the economic way in which he performs needed services and functions. Otherwise the thousands of manufacturers who distribute through him and the hundreds of thousands of consumers who buy from him would have sought more efficient methods and would have discarded the distributor if such methods had been available. Just what the distributor's services are and how they are performed will now be discussed.

Services to Industrial Users

Although the functions of the industrial distributor differ but little from those rendered by the service wholesaler in the distribution of consumers' goods, the differences being largely in application rather than in kind, the subject of industrial marketing is so important from the standpoint of volume of busi-

[5] Facts About the Field of Industrial Distribution, p. 4, Chicago, *Mill Supplies,* 1931. For 1935 the Census of Business reports 1,633 distributors.

[6] H. W. Barclay, "Research Proves Economic Importance of the Distributor," *Mill Supplies,* June, 1931, p. 17.

ness that it is deemed advisable to discuss the functions of the industrial distributor in some detail.[7]

The Industrial Distributor Acts as a Purchasing Agent for His Customers.—One of the principal functions of the industrial distributor is to act as a purchasing agent for his customers—the industrial users or consumers. In doing this it behooves the distributor to gather under one roof thousands of products from manufacturers located in every part of the United States and even abroad. A typical mill supply house is said to handle a representative stock of 5,000 to 6,000 different items when it specializes in certain lines of supplies, distributors handling a more general line of supplies carry from 20,000 to 30,000 items each and in a number of instances the inventory runs as high as 65,000 items. The great diversity of distributors' inventories can be gleaned even from a partial enumeration of the merchandise classifications normally carried, which include supplies, pipe, fittings, valves of all types, tools, files, saws, chain hoists, power-transmission equipment, nails, spikes, bolts, belting, grinding wheels, packing and shipping materials, wire and manila rope, gauges, machine tool accessories, wire wheel and other brushes, drills, reamers, car movers, ladders, factory trucks, wheel-barrows, hacksaw blades, metal plates and bars, mechanical rubber goods, chemicals, paints, and numerous other types of merchandise.

The distributor's buyers, like those of regular wholesalers, are constantly on the alert to select items from the numerous offerings of manufacturers, and to determine the adaptability of new products to the trade. In the absence of the distributor the industrial user would have to select from the thousands of manufacturers producing industrial supplies and equipment the relatively small number who could supply him with the goods desired in the most efficient manner. That this task is impractical for most industrial consumers unless operations are on a very large scale and other conditions are propitious is evident

[7] The essential character of the functions of the industrial distributor was discussed at some length by one of the authors (Theodore N. Beckman) in a series of twelve articles published in the January, February, March, April and May issues of the *Industrial Distributor and Salesman* in 1929 and in the June, July, August, September, October, November and December issues of *Mill Supplies* in 1929.

from the fact that in 1933 there were no less than 152 manufacturers of leather belting alone, 255 manufacturers of screw machine products, 71 manufacturers of saws, 260 manufacturers of brooms, and 587 manufacturers of machine tool accessories. Under the distributor system the user can reach most of the manufacturers producing machinery, equipment or supplies through the mail, the telephone, or through a single interview with the distributor's salesman. In addition, the distributor's catalog facilitates the work of the consumer, doing away with the large number of manufacturers' catalogs.

Buys in Quantity.—The industrial distributor tends to buy judiciously in large quantities. Barring unusual circumstances, the amounts which he purchases at any given time are considerably above what any one consumer could afford economically to handle. In doing so the distributor effects important economies which are, at least in part, passed on to his customers in the form of lower prices, services considered. One of the advantages secured through quantity buying is in the favorable prices which the distributor obtains from producers in the form of lower quotations, quantity discounts, free deals, or superior terms of credit and cash discounts. Quantity buying also enables the distributor to bring the goods to his warehouse at car lot rates which are substantially below those charged for less-than-car lot shipments. It might be noted in passing that the distributor is entitled to a reasonable compensation for this service of large-scale buying, and that unreasonable competition should not force him to give factory prices to the industrial user. Adequate freight or express charges should be added to factory prices along with other expenses to arrive at the distributor's quoted prices.

To show the tremendous difference in freight rates, depending upon the quantity purchased, the following illustration is reproduced below. It is assumed that the shipping distance is about 200 miles and that the item in question takes a second classification.[8]

[8] R. W. Procter, "What's the Answer to This Problem of Distribution," *Mill Supplies*, Dec., 1930, p. 18.

Price of Commodity per Pound	LCL Freight Charge per Hundred Pounds		CL Freight Charge per Hundred Pounds	
	Cents	% of Price	Cents	% of Price
10 cents.	66	6.6	27	2 7
25 cents.	66	2.6	27	1.1
50 cents.	66	1.3	27	.5

Maintains Stocks at Convenient Points.—The industrial distributor usually maintains large, complete, and carefully selected stocks at strategic and convenient points from the standpoint of the industrial consumer. A survey of 12 representative mill supply and electrical distributors in Cleveland, Ohio, showed that in their stock could be found over 1,500 lines of merchandise with the number of different items carried varying from 10,000 to 75,000; and that the typical distributor carried about 500 lines consisting of 22,000 items.[9] Buying through the distributors who carry these large inventories, rather than direct from manufacturers, the industrial consumer is in a position to stock with a minimum of goods, thereby reducing his capital investment, and at the same time saving in rent, insurance, storage, and payroll, and minimizing risks incidental to the deterioration of goods or to a fall in prices. Many small operators maintain no stocks or repair parts whatsoever, but depend entirely upon the distributor for all items of supply.

Makes Deliveries Promptly.—Closely tied up with the maintenance of complete and diversified stocks for the benefit of customers, is the advantage arising out of the distributor's ability to make deliveries quickly. Orders are normally filled within 24 hours which might take a week or so to get direct from the factory. Prompt delivery is facilitated, first, by the distributor's close proximity to his customers, and second, by the variety in methods of transportation used. Being within easy shipping distance from his customers, the distributor can make delivery by truck to city customers once or twice a day, while out-of-

[9] *Ibid.*

town shipments can be made by rail, electric railway, or by truck. Not all of these facilities may be available to the manufacturer who sells direct.

The advantages to the consumer issuing from the fact that distributors deliver goods promptly are many and varied. In the first place, it helps the consumers to operate with less capital, to carry minimum inventories, as well as prevents delays in production and factory shut-downs. An analysis of the orders received over a period of time by an industrial distributor in the Middle West showed that over 70% of all the orders received required rush shipments and were of an emergency or semi-emergency nature. Again distributors give store-door delivery, which saves carting expense, and eliminates a considerable amount of checking. Two checkings of an order from a mill supply house ordinarily suffice if goods are delivered directly to the department which requisitioned them. Finally, stock availability and speedy delivery on the part of the distributor is inseparably tied up with modern purchasing practice of consumers who prefer to buy on a hand-to-mouth basis, i.e., in compliance with current needs.

Maintains Service Department.—Engineering or technical service to industrial consumers usually takes one of two forms. It may be given in anticipation of a sale of some large installation, or it may take the form of servicing existing installations and equipment in order to keep the plant running. Although many industrial consumers provide their own servicing, it is true that the industrial distributor's activities along this line are also most useful, especially to small-scale users. He often provides complete machinery overhauling facilities and employs expert mechanics to serve the trade. Machine shop facilities are frequently offered where special lengths of staple products can be cut to meet the requirements of consumers, pipe-threading machines to handle different size pipe; other types of service are rendered involving periodic inspection to insure satisfactory operation of equipment previously installed. This function, however, for heavy machinery and more expensive installations

generally can be performed better by the producers of the equipment who sell direct.

Supplies Information and Advice to Customers.—The distributor's salesman calls more frequently upon a given consumer than a sales representative from a direct selling manufacturer. He thus learns at first hand of the customer's maintenance needs. He arouses the interest of foremen in new ideas; supplies some technical information on the use of certain items under consideration; gives immediate price information without having to refer the matter to the home office; suggests new applications for products; and informs the consumer of the newest improved machinery and equipment. Consumers are usually anxious for information on uses of certain products, typical installations, working data, cost data, new mechanical features, service applications, how the products are made, and on market conditions. The distributor generally knows the markets and the territory in which he operates, and is able to aid the customer in anticipating price changes and new or increasing requirements of consumers. Because the distributor's salesman handles a number of parallel lines his advice is likely to be superior and less biased than that offered by a manufacturer's salesman. Even large consumers find this kind of advice essential. The purchasing agent of a large industrial user may buy in the course of a year over 30,000 items. Naturally, it is impossible for him to be thoroughly familiar with all of them, hence he must of necessity depend upon the salesmen who call upon him.

Renders Financial Assistance and Simplifies Consumer's Accounting.—Many consumers require credit accommodations when purchasing equipment and supplies. In buying direct from factories they may be required to pay cash on receipt of invoice or to buy on c.o.d. terms instead of the usual credit period extended by the distributor. Even when credit is extended by the producers, the terms are not likely to be as liberal, for the local distributor is familiar with the credit standing of practically every industrial plant in his territory and can grant

terms accordingly. Furthermore, it is simpler to establish credit with a few distributors than it is to open accounts with hundreds of manufacturers under a direct buying plan, with the numerous inquiries and delay which that method entails. In concentrating his purchases with one or a few distributors, the solvent industrial user becomes a preferred customer and credit risk, which is of considerable import in times of stress when financial assistance is urgently needed.

Furthermore, buying from an industrial distributor minimizes the bookkeeping and other purchasing details of the consumer. Only one account is maintained, instead of many, representing hundreds of manufacturers. Instead of ordering 20 or 30 items on one order, in direct buying the consumer would frequently have to write 20 or 30 separate orders and pay as many separate bills. All of this would multiply purchasing detail and expense out of proportion to whatever savings might be effected by direct buying.

Another service offered by the distributor to his customers is the backing up of guarantees. In effect, the goods bought from the distributor carry a double guarantee, the maker's and the distributor's. This guarantee may be explicit or implied. The very fact that the distributor stocks a certain item is more or less a guarantee of its desirability, for his trained buyers are presumed to study the merits of each item before it is added to stock, and investigate the guarantee furnished by the factory. The distributor also handles complaints of customers. In buying from him, the consumer can direct all his complaints and requests for allowance to a single organization and to the same personnel. Even claims against the carriers, when they are at fault, are sometimes handled for consumers by the supply house.

Services of Industrial Distributors to Producers of Industrial Goods

In the discussion immediately preceding, the services of the industrial distributor have been examined from the standpoint of the consumer to whom he sells. The distributor also serves the manufacturer whose goods he buys, stores, and resells to the

trade. In order to view him in his full stature, therefore, it is essential that the distributor's economic position in relation to the manufacturer be fully appraised.

Specializes in Distribution.—In a broad sense the industrial distributor acts in the capacity of a distributing agent for the manufacturer. He specializes in distribution thereby enabling the manufacturer to specialize in production. The distributor is continuously supplied through his salesmen in the field with valuable information which he is in a far better position to interpret than is the average producer. In the absence of the distributor, or when he fails to perform his function, the manufacturer may be forced to make costly, troublesome, and time consuming market analyses without which it would be hazardous to place a product on the market.

Provides a Competent Sales Force.—The industrial distributor furnishes the manufacturer a definite clientele of permanent and consequently pleased customers. Connections have already been established with hundreds or thousands of consumers who are called upon by the distributor's salesmen at frequent intervals. The manufacturer is thus relieved of the task of hiring, training, and supervising an adequate sales force, a task with proportions determined by the size and type of business involved and the extent of coverage sought. As will be shown in another chapter, under certain conditions it is feasible for a producer to sell direct with his own sales force, but for the average manufacturer of a product in wide use, the expense involved might well be prohibitive. For example, for the manufacturer of lathes, which may be regarded as an essential tool for almost any factory, the task of maintaining a sales force large enough to call upon any substantial proportion of the 209,862 manufacturing plants that were in existence in 1929, according to the Census of Manufactures, or upon any large percentage of the 141,776 plants in operation in 1933, would be more than such a manufacturer could possibly handle. It would be equally impractical for a manufacturer of electric drills, for which every shop may be a prospect, to follow a direct selling

policy. Even for articles which have a more limited use and apply to a single industry, the task of direct selling presents many difficulties.

TABLE 14. A PARTIAL LIST OF THE NUMBER OF POTENTIAL INDUSTRIAL CONSUMERS

Type of Industrial User	Number of Establishments, 1933
Manufacturing Industries	141,776[a]
Mines and Quarries	11,602[b]
Construction Industry	144,396[c]
Hotels	29,462[d]
Restaurants and Eating Places	200,335[e]
Theatres	10,265[d]
Places of Amusement (other than theatres)	19,472[d]
Personal Service Industries (barber shops, cleaning and dyeing shops,etc.)	311,416[d]
Mechanical Repair Services	75,306[d]
Cartage and Trucking	23,102[d]
Storage Warehouses	2,517[d]
Hospitals	6,437[f]
Schools	245,941[g]
Banks	14,530[h]
Steam Railroads	700[i]
Electric Railways	706[j]
Telephone companies	918[k]
Central Electric Light and Power Companies	3,429[j]
Retail stores (except restaurants and eating places)	1,325,784[e]
Wholesale Places of Business	164,170[l]
Total	2,732,264

[a] Census of Manufactures, 1933. Summary by Industries, released Jan. 23, 1935.

[b] Fifteenth Census of the United States, "Mines and Quarries," p. 9, Washington, D. C., U. S. Government Printing Office, 1933. (The data are for 1929.)

[c] Fifteenth Census of the United States, "Construction Industry," p. 19, U. S. Government Printing Office, 1933. (The data are for 1929.)

[d] Census of American Business, "Services, Amusements, and Hotels," Vol. I, U. S. Department of Commerce, May, 1935.

[e] Census of American Business, "Retail Distribution," Vol. I, U. S. Department of Commerce, May, 1935.

[f] World Almanac and Book of Facts for 1935, p. 278.

[g] *Ibid.*, p. 394. The data are for the year 1932 and refer to the number of buildings. This seems to be as near as the number of schools can be calculated. While a single school may occupy several buildings, there are single buildings which house two or more schools.

[h] Statistical Abstract of the United States, 1934, p. 233.

[i] Interstate Commerce Commission, 47th Annual Report on the Statistics of Railroads in the United States, 1933, p. 98. (Data cover class I, II, and III railroads reporting to the Commission.)

[j] Census of American Electrical Industries, 1932, Bureau of the Census, p. 4. The data are for 1932.

[k] *Ibid.* Excludes systems reporting annual incomes of less than $10,000.

[l] Census of American Business, "Wholesale Distribution," Vol. I, U. S. Department of Commerce, May, 1935.

No reliable data are available on the total number of purchasers of industrial goods. Nevertheless, an attempt has been made to give an approximation of the extent of the industrial market from the standpoint of the number of purchasers and prospects. A partial list of potential consumers of such goods is presented in Table 14. Stores and wholesale places of business have been included in the list because they buy equipment such as scales, cash registers, supplies, and fixtures which makes the number of establishments using industrial products amount to over 2,700,000. This number by no means includes all users of industrial goods. For example, the list does not include the bus and trucking companies operating either as contract carriers or as common carriers (exclusive of concerns engaged in carting); pipe line companies; aviation companies; office buildings; or governmental agencies. Were all of these included, it is believed that the total number of establishments consuming industrial equipment and supplies would exceed three million. Inasmuch, however, as many establishments are operated as part of a chain or as subsidiaries for which purchasing is centralized, it is estimated that the total number of actual buyers of industrial goods, reckoned in terms of organizations or concerns, is probably nearer 2 millions, a large field and one which calls for a high degree of specialization to handle the problems of distribution.

Cultivates His Territory Intensively.—When a manufacturer of an industrial commodity attempts to sell directly to consumers, he seldom obtains blanket coverage. Ordinarily he develops a few good salesmen who are assigned large territories or a few of the important industrial centers from which large orders are extracted. The reasons why the manufacturer cannot ordinarily cultivate the trade intensively are several in number. In the first place, the vast majority of industrial consumers are located in relatively small communities, widely scattered, and hence are difficult and expensive for the distant producer to reach. Even in manufacturing, which is more concentrated than other types of consumers, a large percentage are thus located. Of the 175,325 manufacturing plants in operation during 1931, only 96,868 were located in what are termed the

33 industrial areas. Furthermore, many of the plants in the so-called industrial areas are in out-of-the-way places, since an industrial area may comprise as many as 12 counties.[10] Again, since many manufacturers of industrial goods produce but a limited range of merchandise they find it uneconomical to call upon the small or medium-sized consumers. Even in manufacturing industries, the bulk of the plants are small in size.[11] Moreover, from the very nature of their business, a large number of non-manufacturing industrial consumers, particularly in the service industries and among the institutions, operate on a small scale, as exemplified by automobile repair shops, barber shops, restaurants, and shoe repair shops. The industrial distributor, like the wholesaler of consumers' goods discussed in Chapter 9, by virtue of his extensive line of merchandise and proximity to his trade, can reach economically practically every potential user of equipment and supplies at frequent intervals no matter where he is located and irrespective of his scale of operation.

Stores Goods for the Manufacturer.—Storing of finished products is indispensable to continuous and regular production. The manufacturer of industrial goods may choose to store the finished goods in his own warehouses until demanded by consumers or he may allow the distributor to perform this function. Both from the producer's and the social points of view, the latter method is generally by far the more economical. The distributor's warehouse, like that of any wholesaler, may be likened to a reservoir into which products from hundreds of manufacturers are constantly flowing and from which they in turn flow out to the trade. Unless the manufacturer resorts to the use of public storage facilities for warehousing stocks in consumer centers, which may be practical for relatively few of them, he cannot escape the inefficiencies in production arising out of seasonal fluctuations in demand.

The industrial distributor also aids the manufacturer in various other ways. For instance, by his customary ordering

[10] Biennial Census of Manufactures, 1931, p. 34, Washington, D. C., U. S. Government Printing Office, 1935.

[11] See Chapter 9, footnote 1.

of goods far in advance of actual need by his trade, the distributor gives the manufacturer the opportunity to operate according to schedule and to produce to order instead of for stock. He also is able to extend financial assistance to many producers of industrial products who operate on a relatively small scale, and frequently require such aid which, because of their size, they cannot secure from commercial banks or from other financial institutions. In the previously mentioned study made for the Business Advisory Council of the U. S. Department of Commerce covering the experiences of 6,158 manufacturing concerns employing from 21 to 250 wage-earners each it was disclosed that during the years 1933 and 1934 no less than 45% of the borrowing firms reported difficulty in securing financial assistance from either normal private sources or from governmental agencies.[12] Through the assistance rendered by wholesalers and industrial distributors many of the smaller manufacturers were helped during the rigors of the late depression. This assistance has at times taken the form of direct advances or of indorsing the producer's notes, but more often financial aid has been the indirect result of the fact that the distributor usually takes cash discounts or pays his bills with greater promptness than can be expected from many of the small or average-sized consumers.

The distributor also serves the manufacturer by simplifying his accounting problems. When a manufacturer sells through distributors rather than direct to consumers, he need but carry a relatively small number of accounts on his books. Moreover, since distributors place large orders, a few substantial shipments are made in the place of numerous small ones to consumers, which effect savings in packing, shipping, billing, and record-keeping. In addition, the use of industrial distributors acts to reduce the manufacturer's risk, since these selling concerns are usually well-rated, enjoying a strong financial position. In selling to them, the manufacturer assumes but little risk of loss through bad debts as compared to the losses that would

[12] "Survey of Reports of Credit and Capital Difficulties Submitted by Small Manufacturers," prepared by Theodore N. Beckman for the Bureau of the Census at the request of Business Advisory Council, Washington, D. C., U. S. Government Printing Office, 1935.

be incurred in selling to numerous small customers. Furthermore, the distributor also reduces risk to the producer by placing orders in advance, and by carrying large inventories; he thereby assumes risks incident to unfavorable price fluctuations and due to deterioration or obsolescence of goods. Another advantage to be gained from the use of the distributor method of marketing is that it tends to minimize costs of servicing products. The ability of the distributor to provide local service and repairs may make it possible to perform this function more economically than could the distant producer. This type of service, moreover, reduces the number of orders from consumers for special or non-standard commodities. Many other kinds of expense, such as those arising out of adjustments, are also reduced to a minimum by the distributor's close contact with the consumers.

Conclusion.—The term industrial marketing, while used in many different ways, seems best defined when used in the broadest possible sense to include all goods which require further processing or which are consumed in the process of production, trading, and in the performance of various services. In this sense, the industrial market, measured either in terms of physical output or dollar volume is truly a significant segment of the entire wholesale market. In the marketing of industrial goods which come from the factory, direct contact with consumers, either by selling directly from the factory or through wholesale branches maintained by the producer, constitutes the principal channel of distribution, followed by the manufacturer-distributor-consumer channel, and the manufacturer-broker or agent-consumer channel.

The choice in distribution channels naturally depends on many factors, such as the number of potential industrial consumers, average unit of sale, geographic distribution of consumers, credit standing of consumers, regularity of demand, amount of technical sales service required, servicing and repairs after the product has been installed, degree of promptness in delivery required, opportunities for economy in shipping in car lot quantities, amount of sales promotional work demanded by

the manufacturer, and the size of the producing organization and its financial strength. When the number of potential users of a given product is large, the market scattered, the unit of sale low, the credit standing of consumers limited, demand irregular, prompt delivery of major importance, economies in shipment possible, little or no technical sales service required, repair service essential, the manufacturer operates on a small scale or needs financial assistance, and relatively little sales promotional effort produces satisfactory results; then the distributor channel is the most economical means, provided, of course, that the distributor operates with a reasonable degree of efficiency.

When the above-mentioned conditions obtain, the industrial distributor is not only indispensable to the manufacturer but is of even greater use to the industrial consumer in his territory, for whom he performs many essential services. Were it not for the industrial distributor, the consumer would be forced to choose hundreds of sources of supply, buy in larger quantities, order considerably in advance from the distant manufacturer, complicate routine in checking the incoming goods, multiply his buying and accounting details, handle adjustments at greater expense and inconvenience, incur higher transportation costs, limit his demand for repair service, tie up production because of breakdowns or exhausted supplies, and in other ways subject himself to annoyances and inconveniences as well as incur added expense not now experienced. Similarly, in the absence of the distributor the average or small-scale manufacturer of industrial goods would be forced to hire, train, and supervise a large enough sales force to call upon the hundreds and thousands of industrial consumers, to reach into every town and village and to call upon small as well as large purchasers, to analyze his market potentialities, to produce for stock and store the finished goods until demanded by consumers, to finance his marketing as well as manufacturing operations, to provide a complicated accounting system to care for the large number of small orders from consumers, to assume risks incident to carrying large inventories and those arising out of losses from bad debts, and to maintain throughout his market, facilities for servicing and repairing his products.

In view of these facts the conclusion seems warranted that, so long as the industrial distributor makes an honest endeavor to serve his trade in an efficient manner and truly to represent the manufacturer whose goods he undertakes to distribute, his future as a link in the chain of distribution should be well assured.

CHAPTER 11

COMPETITION AND SPECIALIZATION AMONG REGULAR WHOLESALERS

Regular or service wholesalers compete with direct-selling manufacturers on the one hand and with direct-buying chains, department stores, mail order houses, and other retail groups on the other. They also compete for business with some of the so-called newer types of wholesalers whose services are limited, abbreviated or modified. But, above all, regular wholesalers compete among themselves. This latter type of competition takes on significance when the competitors differ either in the degree of diversification or specialization in goods or by the extent of the trade territory regularly and normally cultivated. In order to understand the strength and weakness of this type of competition it is necessary to center the discussion upon the competitive elements which strive with each other.

Direct selling agencies, such as manufacturers and petroleum refineries, will be discussed in Chapter 13. The analysis of competitive large-scale retailing groups, such as chain store warehouses, will likewise be deferred to Chapter 14. In the following pages of the present chapter the analysis will be confined to the competing elements found within the more limited field of wholesaling proper, or among service wholesalers.

Classification of Regular Wholesalers.—Regular wholesalers which comprise the central figure in this competitive struggle may be grouped according to the line of goods they carry and the extent of diversification in the number of items within a single line of merchandise. This is possibly the commonest grouping used by directories and business generally.[1] On this basis regular wholesalers have been divided, for the

[1] On this basis the Census Bureau recognized in the 1929 Census of Distribution no less than 343 classifications which were reduced in the 1933 Census of Business, for the sake of economy in the handling of the data, to 186 classifications.

purposes of this discussion, into three groups, based in part upon the kinds of retail stores served. These three types are *general merchandise wholesalers, general line wholesalers,* and *specialty wholesalers.* They are found predominately in the consumers' goods trades. General line and specialty wholesalers are also found in the industrial marketing field.

Another common method for classifying service wholesalers has as its basis the trade area normally covered. Accordingly, they are divided into local, sectional or regional, and national wholesalers, depending on the extent of the radii of operations.

Specialization of Service Wholesalers by Merchandise Lines

General Merchandise Wholesalers.—General merchandise wholesalers carry a general assortment of goods in several distinct and unrelated lines of merchandise. They operate in the Middle West, the West, and to a considerable extent in the South, as well as in the more backward sections of the East, where the country general store still holds sway in rural communities. In 1929 there were in this country 186 general merchandise wholesalers, doing an annual volume of business in the aggregate of more than $178 million.[2] By 1933 the number had fallen to 87 with a total annual business of a little over $61 million.[3] But for 1935 the Census reported 211 establishments with an annual business of about $362 millions.

General merchandise wholesalers usually carry goods which are non-perishable and easily portable over relatively long distances and to out-of-the-way communities, such as dry goods, hardware, electrical supplies, sporting goods, furniture, plumbing and heating equipment and supplies, and farm implements. Occasionally some general merchandise houses may also carry limited assortments of groceries. While a wholesaler is classified in this category only when he sells substantial proportions in each of several distinct lines of goods, very frequently one

[2] Fifteenth Decennial Census, Distribution Vol. II, Wholesale Distribution, Table 3.

[3] It is believed that the figures for 1933 represent an understatement, since no data were collected for that year showing sales by commodities, on the basis of which a given house could be properly classified. For this reason, the figures for 1929, when commodity data were available, are probably more accurate even for 1933, with due allowance for the depression period.

line such as hardware or dry goods dominates the business. In many general merchandise houses these two lines together represent the bulk of the business. This wide variety of merchandise enables these establishments to meet competition from more specialized concerns, particularly in selling to either country general stores, or to stores located in small communities, and to small outlets located in the larger cities. These stores can concentrate their purchases, thereby making it economical for the wholesaler to cultivate such trade. As long as the general stores are thriving—and there are still approximately 86,000 country general stores and over 21,000 other general stores—and as long as there are many very small stores handling a wide assortment of merchandise in a single trade, so long will it be possible for this type of wholesaler to render useful services. The trend among these wholesalers, however, has been away from handling general merchandise in several unrelated lines and toward a general line of goods in one trade. In other words, general merchandise wholesalers are becoming general line wholesalers and are thereby increasing the competition among the latter type of service wholesaler.

General Line Wholesalers.—In this group are included the large number of service wholesalers who carry complete stocks in their respective fields. For example, the general line wholesale grocer carries a complete stock of canned fruits and vegetables, canned sea foods, cereals, coffee and tea, extracts and spices; in addition he handles flour, sugar, cheese, smoked meats, soaps and soap powders, and numerous other items closely related to the food or grocery business. Similarly, the general line hardware wholesaler carries stocks consisting of hardware proper including builders' hardware, shelf or light hardware, tools and cutlery, heavy hardware, and the like. He also carries goods that are closely allied to hardware; some of which may even be regarded as a part of the hardware line of goods. In this latter group are included such goods as electrical appliances and supplies, china and glassware, sporting goods, paints and varnishes, plumbing supplies and equipment, industrial chemicals, mill supplies, radios and refrigerators, house furnishings,

and toys and games. The items in this group, however, seldom represent over a third of the entire business volume of a general line hardware wholesaler.[4] Again, a general line wholesaler in the electrical field counts in his stock electric household appliances; motors, generators and control apparatus; interior electric construction materials, including fixtures; storage batteries; radio sets, parts and accessories; electric refrigerators; and electrical supplies. The general line dry goods wholesaler handles merchandise ranging from ready-to-wear clothing to window shades. Although in its strictest sense the term "dry goods" is confined to piece goods, ready-to-wear clothing, knit goods, and notions, the average stock of the general line dry goods wholesaler contains also furnishings, floor coverings, luggage, millinery, and many other items. The above are merely illustrative, for in individual cases, lines of merchandise are constantly added or dropped to keep pace with changing demand and opportunities. The distinction between these general line wholesalers and the general merchandise wholesalers discussed above is that the latter may include several rather complete general lines such as hardware, electrical goods, dry goods and groceries.

Since most of the stores to which general line wholesalers cater stock a complete assortment of merchandise in a given line, they find this class of wholesalers an invaluable source of supply. The great majority of our food stores carry a complete line of groceries, and the same is true of stores in other fields such as drugs, hardware, and dry goods. The data in Table 15 reveal the importance of general line wholesalers in number of outlets, in absolute volume of business and in relation to specialty wholesalers in the same line of trade for the years 1929 and 1933. From these statistics it appears that, for the trades indicated, the number of general line wholesalers, while large, is smaller than the number of specialty wholesalers, but, with the exception of dry goods, the total volume of business done by general line wholesalers is much more substantial,

[4] For a discussion of the trends of merchandise handled by hardware wholesalers, see W. A. Bowers and W. L. Mitchell, Jr., "Hardware Distribution in the Gulf Southwest," Ch. III, Domestic Commerce Series No. 52, Department of Commerce, Washington, D. C., U. S. Government Printing Office, 1932.

TABLE 15. GENERAL LINE AND SPECIALTY WHOLESALERS IN SPECIFIED KINDS OF BUSINESS[a]

(Amounts expressed in thousands of dollars)

Kind of Business	Establishments				Net Sales				Operating Expenses as Per Cent of Sales
	1929		1933		1929		1933		
	No.	%	No.	%	Amount	%	Amount	%	
Drugs	1,109	100.0	1,078	100.0	$ 508,424	100 0	$ 342,462	100.0	....
General Line	484	43.6	360	33.4	405,262	79.7	273,630	79.9	15.1%
Specialty	625	56.4	718	66.6	103,162	20.3	68,832	20.1	22.7
Dry Goods	3,385	100.0	2,938	100.0	1,564,981	100.0	754,311	100.0	....
General Line	797	23.5	489	16.6	549,330	35.1	249,239	33 0	16.0
Specialty	2,588	76.5	2,449	83.4	1,015,651	64.9	505,072	67.0	12.2
Groceries	8,090	100.0	9,189	100.0	3,651,343	100.0	2,102,763	100.0	....
General Line	5,251	64.9	3,434	37 4	2,779,204	76.1	1,360,871	64.7	9.3
Specialty[b]	2,839	35.1	5,755	62.6	872,139	23 9	741,892	35 3	16.4
Hardware	1,213	100.0	1,144	100.0	704,345	100.0	339,339	100.0	....
General Line	925	76.3	692	60.5	660,233	93.7	301,932	89 0	21.3
Specialty	288	23.7	452	39.5	44,112	6.3	37,407	11.0	22.6
Industrial Machinery and Supplies[c]	....	....	2,414	100.0	....	....	246,407	100.0	....
General Line	....	....	989	41.0	....	....	150,063	60.9	20.0
Specialty	....	....	1,425	59 0	....	....	96,344	39.1	26.5
Plumbing and Heating[c]	....	....	1,428	100.0	....	....	141,449	100.0	....
General Line	....	....	767	53.7	....	....	90,294	63.8	24.9
Specialty	....	....	661	46 3	....	....	51,155	36.2	25.7

[a] Computations for this table are based on Table 2-B for Wholesale Merchants, Census of American Business, Wholesale Distribution, Vol. I.

[b] The classification used for specialty grocery wholesalers is given by the census as "other food and grocery specialties."

[c] 1929 equivalent not available.

amounting to from 60% to 90% of the total. This indicates the prestige of general line houses in serving the trade and also that they operate on a much larger scale on the average than do specialty concerns. The same generalizations also apply to the industrial distributor such as mill supply houses handling a general line of industrial machinery, equipment, and supplies as compared to those which specialize in a limited number of items.

The wide variety of merchandise within the line of specialization handled by general line wholesalers enables them to cultivate the trade of the smaller retailers in the same field in the city and that of the average retail merchant carrying the same line in the smaller communities. Furthermore, it enables the retailer to concentrate his buying and facilitates city pick-up trade where the retailer desires small quantities of a large number of items at frequent intervals. Such houses also operate at a lower cost than do competing types of service wholesalers, as will be shown in the paragraphs immediately following.

Specialty Wholesalers.—Just as the *general line* wholesaler is a more specialized agency than the *general merchandise* wholesaler, so the *specialty* wholesaler is another link in the chain of increasing specialization among service wholesalers. Specialty wholesalers, often referred to as short-line distributors, confine their activities to a narrow range of products in a single line of merchandise. In the grocery business such wholesalers may handle canned goods exclusively, or coffee, flour, sugar, or some other single line of merchandise. Some of them may not even handle a *general* line of canned goods but confine their effort to either canned fruits, vegetables, or sea foods. The degree of specialization in merchandise varies considerably even with specialty concerns. While some of them handle coffee exclusively, other coffee houses may add teas and spices to their line. In hardware, specialty houses may deal exclusively in cutlery, in heavy hardware, in builders' hardware, or in some other limited group of commodities. Specialty wholesalers in drugs may limit their stock to certain drug items, to patent medicines, or may specialize in some of the toilet articles or

preparations. In dry goods, the specialty wholesaler may handle only knit goods, notions, or piece goods. Specialization in this latter line of business is carried to such lengths that some wholesalers confine their entire activity to dealings in silks and velvets, others to woolens and worsteds, and still others to cotton goods. Similarly, in the field of industrial goods, the specialty wholesaler may handle only tools, hacksaws, belting, mechanical goods, or pumps, or his specialization may take the form of limiting the stock to goods used in a certain industry as illustrated by mill supply houses specializing in marine equipment and supplies, which are commonly called "ship chandlers."

Development of Specialty Wholesaling.—Specialty wholesalers came into being with the development and territorial expansion of trade. As pointed out in Chapter 4, specialization in merchandise began shortly after the Civil War because of certain inherent advantages. In some trades, such as dry goods, many of the successful specialty wholesalers started as offshoots from general line dry goods jobbing houses,[5] from which one line after another had been split away until the remaining lines were so reduced in number that the business assumed the characteristics of a specialty house. Occasionally the failure of a general merchandise or general line jobbing firm or the voluntary withdrawal of such a firm from business has resulted in the establishment of specialty houses by former employees, who sought to capitalize their skill in buying and selling and their general knowledge of the trade. A good example is the recent withdrawal of Marshall Field & Company of Chicago from its jobbing business. The company, 70% of whose wholesale business consisted of goods manufactured in its own plants prior to the change, decided to concentrate all of its activities on its own merchandise instead of serving to any extent as wholesale outlets for the goods of other manufacturers. As soon as this decision was reached no less than six new specialty houses in the dry goods trade were incorporated by some of the former employees of the company with the possible estab-

[5] P. T. Cherrington, "The Wool Industry," p. 144.

lishment of several more.[6] Another reason for the formation of specialty wholesale houses lies in the limited financial resources of the organizers. Many firms start with a limited capital, hence they face two alternatives, one, the operation of a general line house with inadequate stocks; the other, the establishment of a business stocked only with a short line. The latter procedure is by far the more common as well as the most sensible because there is less danger of losing the whole investment due to over-expansion. A further reason for organizing specialty houses to handle new lines is that the old general line wholesalers are at times too slow to recognize and appreciate opportunities in new fields.

Present Status of Specialty Wholesaling.—Table 15 shows the extent to which specialty wholesaling has invaded certain lines of wholesale trade and thus throws indirect light upon the growth of competition among service wholesalers. In five of the six lines of business for which data are shown specialty wholesalers operated in larger numbers during 1933 than did general line wholesalers, although their volume of business was considerably less in all trades except dry goods. In this trade specialization in the sale of piece goods to cutters-up and to other industrial consumers is sufficiently significant to outweigh the prestige of general line dry goods firms. A small total volume of business divided among many concerns means that specialty houses generally operate on a small scale. During the year 1933 specialty drug wholesalers, for instance, represented two-thirds of the number of service wholesale establishments but accounted only for about 20% of the business. In groceries, specialty concerns constituted 62.6% of the number of houses but absorbed only 23.9% of the business. In hardware the situation was even more accentuated since 39.5% of the establishments were operated by specialty wholesalers, while general line hardware firms did almost 94% of the business. In

[6] H. G. Seely, "Employees of Field's Form Six New Firms," *Chicago Daily News*, Jan. 17, 1936. (Some of the employees of Marshall Field & Co. took over a number of the discontinued lines forming the Carey Spottswood & Co. for the wholesaling of furniture; the Curley & Bushore Co. for jewelry; Elg Textile Corporation for textiles; McCoy, Jones & Westlake for notions, leather goods, scarfs, neckwear and novelties; Richards, Boggs & King for oilcloths, roller skates, aluminum specialties, yarns and knitwear; and H. G. Zickfeld for ladies' neckwear, blouses and buckles.)

some lines of trade, such as the wholesaling of industrial chemicals, metals, paper, petroleum products, or tobacco products, specialty wholesalers do practically all the business. There is, however, in each field a further degree of specialization. Not only is there *inter-trade* specialization as *between* lines of goods, but there is the additional division of activities as *within* a line of goods which may be called *intra-trade* specialization. Thus, while some wholesalers handle a general line of tobacco and its products, others limit their stock only to cigars, and still others sell only cigars and cigarettes but do not handle snuff, packaged tobacco, or smokers' supplies. Again, in the automotive wholesaling business the handling of replacement parts or of ignition apparatus has tended to be separated from automobile supplies and accessories. Specialization has also taken place in the jewelry trade, where some wholesalers carry only clocks and watches, others specialize in precious stones, still others in flat silverware or in jewelry specialties.

Advantages of Specialty Wholesaling.—In addition to being the only practical alternative for founders with small capital and a limited knowledge and skill, specialty wholesaling is in many ways well suited to meet the demands of the competitive market. In the first place, buyers are attracted to such houses, because of complete assortment of goods carried in a given line. This appeals particularly to specialty stores and to the larger retail institutions where buying is more specialized than in stores dealing in a general assortment of goods in a particular line. Furthermore, salesmen become more expert in the handling of a restricted number of items, and are able accurately to determine the customer's needs, and to give intelligent and satisfactory service. Such skill depends in a measure, of course, upon the degree of restriction in the line of goods stocked. Prompt service is another advantage generally accruing to the trade of a specialty jobber, due to the fact that he usually operates in a limited territory. Finally, from the standpoint of the owners themselves, the specialty wholesaling organization is advantageous since it permits a simplified control of stock and thereby prevents the accumulation of unsalable goods. Simpli-

fication of business practices may permeate the accounting department, the shipping department, and every other part of the business with resulting economies in operation.

Disadvantages.—Specialty houses, however, when compared with their major competitors, the general line wholesalers, are handicapped in that their entire overhead expense must be borne by relatively few items. This accounts in part for the higher operating expenses which are normally incurred by such firms. Reference to Table 15 reveals the fact that in five of the six lines of business for which data are given, higher operating expenses are shown for specialty wholesalers. Operating expenses during 1933 were 15.1% of net sales for general line drug wholesalers as compared with 22.7% for specialty wholesalers in the same line of business. In groceries the difference in operating expenses was much greater, being 9.3% for general line wholesale grocers and 16.4% for specialty houses. In hardware, too, the operating expense ratios favored the general line concern slightly with 21.3% as against 22.6% for specialty houses. Furthermore, having relatively few items to sell, the specialty wholesaler cannot afford to cultivate the smaller retailers or the smaller industrial consumers; or to call upon the average merchant in the smaller towns and villages. Unless the salesman has lines that can be sold on nearly every call, the business is unprofitable. He therefore faces two alternatives, an extensive sales plan or an intensive program. His trade may be directed, as one alternative, to the larger firms in the larger cities. On the other hand it may even be confined to the intensive cultivation of the single community in which the wholesale house is located. Another disadvantage of the specialty house, this time from the standpoint of the average retailer carrying a wide assortment of lines, is that in dealing with specialty wholesalers he is unable to concentrate his purchases with a few sources of supply.

A fourth limitation to the activities and growth of specialty wholesalers is to be found in the awakening of the general line wholesaler to the idea that he, too, can specialize by establishing separate departments for certain lines on which he wishes to

concentrate his effort. Some general line wholesalers select what may be termed "blue-ribbon-lines" for special sales effort, the choice being determined by the profit margins offered, sales possibilities, and by the manufacturers' distribution policies. Other wholesalers employ specialty salesmen for certain items in their line providing the same sales expertness that characterizes specialty concerns. Still other general line wholesalers devote a certain amount of time, possibly two weeks each year, to a selected line of goods for special sales campaigns, rotating their intensive sales effort from one line to another. It would, therefore, appear that the general line wholesaler could meet the specialty wholesaler's competition successfully if he would take advantage of his opportunities.

Service Wholesalers Classified by Radius of Operation

Local Wholesalers.—As indicated in the opening paragraph of this chapter the competitive front for service wholesalers may be found in the specialization in the merchandise lines handled, or it may lie in the geographical area included within the sales territory covered. The first form of competition has been analyzed in the preceding section of this chapter. Competition on the geographic front will be examined in the following pages. There are, as noted above, three classes usually followed on this basis: local wholesalers, sectional or regional wholesalers, and national wholesalers. General merchandise wholesalers, general line wholesalers and specialty wholesalers may be found in each class although there are probably very few general merchandise wholesalers operating on a nation-wide basis. The term "local wholesaler" applies to a service wholesaler who operates within a single city, covering all or part of it, or within a radius of 75 to 150 miles outside the community in which the house is located. Not only is his market area small but his volume of business seldom exceeds a million dollars per annum, although in the aggregate the volume of business done by this class of wholesalers is very large. The local wholesaler predominates in the distribution of foodstuffs and is particularly strong in the wholesaling of nationally advertised products as well as unbranded staples and private brands of his own. A

study of general line wholesale grocers located in 18 so-called strategic cities including the 13 largest cities of the country showed that local wholesalers, who operated within a radius of 75 miles, accounted for 44.7% of the total business done by all of the firms in question, while local wholesalers covering a territory of 150 miles in radius, accounted for another 11.3%, making a total of 56% of the business for local wholesalers.[7] In the hardware business, on the other hand, local wholesalers are not quite so significant. While separate data for service wholesalers are not available, the data covering *all* wholesale hardware establishments may throw some light on the subject. For the same 18 cities included in the grocery study the hardware wholesale establishments operating within a radius of 75 miles from their respective locations did but 17.9% of the business reported by all wholesale establishments located therein. Another 7.9% was accounted for by wholesale hardware organizations selling within a radius of 150 miles, making a total of 25.8% of the business for local hardware wholesale establishments.[8] In the electrical wholesaling field, the wholesale establishments located in the same 18 cities and operating within a radius of 75 miles accounted for 26.3% of the business and another 22.5% was contributed by those wholesale places of business which covered a territory of 150 miles in radius. Local electrical wholesalers thus accounted for 48.9% of the total volume of business in these cities.[9]

Numerically, local wholesalers predominate greatly over sectional and national wholesalers. The recent tendency, moreover, is towards increased relative importance of local wholesalers both in number and in aggregate volume of sales.[10] The economic basis for this trend seems to lie in the fact that local wholesalers operate on a lower cost margin than do wholesalers covering larger territories. While very little factual data are

[7] N. H. Engle, "Groceries and Food Specialties," Census of Distribution, Wholesale, p. 52, Fifteenth Census of the United States, Distribution No. W-205, Washington, D. C., U. S. Government Printing Office, 1933.

[8] T. N. Beckman, "The Wholesale Hardware Trade," p. 29, Fifteenth Census of the United States, Distribution No. W-203, Washington, D. C., U. S. Government Printing Office, 1933.

[9] T. N. Beckman and C. E. Warner, Jr., "Wholesale Electrical Trade," p. 37, Fifteenth Census of the U. S., Distribution No. W-206, Washington, D. C., U. S. Government Printing Office, 1933.

[10] What effect recent legislation, notably the Robinson-Patman Act, may have upon local wholesalers is discussed in Chapter 29.

available on this subject one study of nearly 2,000 general-line grocery wholesalers throws some light on the problem. This study, based upon census data, attempted to isolate the sales territory factor by keeping the other factors as nearly constant as possible. Three more or less homogeneous groups of wholesalers, one small-scale, one of medium size, and one large-scale, were examined for the behavior of operating expense ratios in six sales territory classifications. The results, while not conclusive, are clearly indicative of a tendency for costs to rise as the sales area broadens or in other words, that costs are lower for local wholesalers than for sectional or national distributors (see Table 16).

TABLE 16. TOTAL EXPENSES OF 1,959 GENERAL-LINE WHOLESALE MERCHANTS IN THREE SALES GROUPS BY LENGTH OF SALES TERRITORY RADIUS: 1929

Length of Sales Territory Radius	Annual Sales Volume								
	$100,000–$300,000			$500,000–$1,000,000			$1,000,000–$4,000,000		
	Number of Establishments	Average Total Expenses Per Cent of Net Sales		Number of Establishments	Average Total Expenses Per Cent of Net Sales		Number of Establishments	Average Total Expenses Per Cent of Net Sales	
		Mode	Median		Mode	Median		Mode	Median
Total......	876	7.95	8.48	690	8.74	9.08	393	8.76	9.12
Up to 75 miles...	763	7.84	8.29	496	8.57	8.76	202	8.37	8.61
Up to 150 miles...	60	8.33	9.20	103	9.02	9.83	96	9.51	9.49
Up to 300 miles...	25	11.11	11 75	47	9.17	9 66	52	9.00	9.23
Up to 500 miles...	16	7.50	10.00	30	9.62	10.42	32	8.43	9.23
Over 500 miles....	11	10.00	13.00	11	13.00	12.75	9	13.33	9.38
All other.........	1	....	......	3	12.50	12.50	2	10.00	10.00

(Source: N. H. Engle, Groceries and Food Specialties, p. 77, Distribution No. W-205, U. S. Bureau of the Census, 1933.)

Costs may be lower as the result, at least in part, of the type of business organization. Generally, most of these wholesale organizations are either single proprietorships, partnerships, or close corporations which allow for immediate supervision of the business by the owners themselves. This reduces many administrative expenses and removes the necessity for high-

salaried hired executives. The territory covered being small the manager-owner can keep in close touch with the credit aspects of his business, thereby reducing losses to a minimum. Expenses of salesmen also tend to be low for the local house, since there is less travel out of the adjacent urban district, inasmuch as the city trade for such concerns frequently amounts to one-half or more of their total business. Traveling and transportation expenses are thus kept at a very low figure.

In addition to the advantages incident to low costs of doing business, the local distributor has an important advantage in lower transportation costs. The transportation costs on incoming goods may be as high for him as for other types of wholesalers, since he must stock his warehouse from sources far and near; but on out-going orders he has the benefit of a close proximity to his customers. Thus, while it may be difficult for a *national* wholesaler to ship into a given territory because he has to contend with high cost l.c.l. shipments over long distances, a *local* wholesaler has only a short haul. Moreover, the local dealer has the advantage of being able to give prompt service to his trade through the use of trucks, either his own or public motor truck carrier service, and of electric inter-urban railways. In many lines of trade, orders from customers usually call for rush shipment. For example, when a printer requires a certain kind of fine paper stock for a given job, he places the order with his local paper wholesaler or converter, expecting to get immediate delivery; and it behooves the vendor to maintain adequate stock and to render prompt delivery service if he is to justify his existence. The same is true of mill supply houses when orders are received from local industrial consumers. The local wholesale house has a decided advantage over competitive wholesalers in fulfilling these exacting requirements. A final advantage accruing to the local wholesaler is that his close contact with his trade enables him to build up institutional prestige and good will among his customers, making it easier to effect repeat business.

Sectional Wholesalers.—The district, regional, or sectional wholesaler covers a territory of two or more states, but does not

operate nationally. He is usually located in one of the larger cities which dominates the area that lies tributary to it. The volume of business of such firms frequently varies from a million to several million dollars a year. In the grocery study previously referred to, it was found that of the general line wholesale grocers located in 18 important wholesale centers 36% of the business was done by those who operated within a radius of more than 150 miles but not nationally, showing that in the food business sectional wholesalers are second in importance to local wholesalers. In the hardware trade, sectional wholesale organizations are more significant, accounting for 55.5% of the business done by hardware firms located in the 18 cities under consideration.

When a sectional wholesaler goes beyond the local trading area of his community, competition from local jobbers in adjacent communities increases, higher transportation costs are incurred, deliveries on customers' orders are delayed, sales expenses in traveling to far points rise, and sales of certain lines may be limited, since not all items warehoused can be shipped economically to distant markets, because such items as heavy and bulky goods require too high transportation costs. To meet the competition from local wholesalers, the sectional wholesale house has resorted to private branding, which in turn frequently leads to manufacturing. It is largely this group of wholesalers that is responsible for the rise in the private brand problem, which has exerted a profound influence on the methods of distribution used by a number of manufacturers. Branding has been used primarily as a means of avoiding direct price competition, since it is difficult if not impossible to make direct price comparisons on items bearing different labels. This tendency in itself, is evidence that local wholesalers have a competitive advantage in most if not all lines carried and particularly in nationally advertised goods and staple merchandise.

National Wholesalers.—National wholesalers, i.e., wholesalers who sell in several sections or over the entire United States, are few in number but account for a substantial volume of business. Most of them are very large concerns handling

either a general line of goods or distributing a narrow line of specialties with the emphasis definitely shifting towards the latter type of business. The general line wholesalers operating nationally, in the grocery study made for the 18 so-called strategic cities, accounted for 9.2% of the total business of all the general line grocers located in those communities. Chicago led in importance as a center for national wholesale grocers, followed by New York City, and St. Louis. Some of the more prominent concerns in this field are Francis H. Leggett & Company, Reid, Murdock & Company, and R. C. Williams & Company. In the hardware business, the national wholesale houses located in the 18 cities accounted for 7% of the business of all hardware concerns located therein, but this did not include the large business of the Belknap Hardware Company located in Louisville, a city which was not included in the 18 selected cities. The Hibbard, Spencer, Bartlett & Company of Chicago and the Winchester, Simmons Company of St. Louis are two other well-known national hardware houses. A few outstanding national wholesalers in the dry goods trade are Butler Brothers, Carson-Pirie-Scott and Company, Rice, Stix Dry Goods Company, and Wilson Brothers. Marshall Field and Company after many years of wholesaling activity abandoned its wholesaling operations in 1935 after losing $12 million on them in the preceding five years.[11] Among the general line service wholesalers in the electrical trade there are three national wholesalers operating more than 150 branches and doing over 40% of all the business of general line wholesalers of electrical merchandise. These three companies are: The Graybar Electric Company, The General Electric Supply Corporation, and the Westinghouse Electric Supply Corporation. For the hardware business, New York, Chicago, Louisville, and Seattle seem to be the leading centers for national distributors; and for dry goods, New York, Chicago, and St. Louis are the principal centers. The McKesson & Robbins Company chain of wholesale druggists is a leading example of national distributors in the drug trade. Among other national wholesalers may be mentioned W. & J. Sloane Company in the home furnishings field; and the Amer-

[11] *Time,* Dec. 9, 1935, and Mar. 9, 1936.

ican News Company in the book trade operating through some 150 wholesale branches throughout the United States with headquarters in New York.

In the immediate vicinity of their headquarters, national wholesalers generally operate not unlike local wholesalers, selling complete lines of nationally advertised and staple items. Here they enjoy most of the advantages of their local competitors in addition to the benefit that may arise out of size. In the next outer area they operate much like sectional wholesalers, but in the territory which lies beyond they have problems that are unique. To meet competition from local wholesalers who can make prompt delivery of well-known items at lower costs, the national wholesaler, like the sectional wholesaler, has been forced to adopt private brands and to sell a narrow line of specialties in the very distant markets. Some of them like the Carson-Pirie-Scott & Company and Francis H. Leggett & Company have established branch houses from which to keep in touch with the trade, out of which salesmen travel, and from which they make prompt deliveries. Other national wholesalers have moved from private branding of goods produced for them to manufacturing of their own merchandise. Such has been the experience of Wilson Brothers and also of Marshall Field & Company before it finally retired entirely from the wholesaling field. In this manner, they need not sell identical goods on which prices might be compared with those offered by the local or sectional wholesaler. In addition to establishing branches, pushing private brands, integrating with manufacturing, and carrying a narrow line of specialties for sale in distant markets, all of which have been tried by national wholesalers, these firms have also availed themselves of the advantage of carrying more complete stocks than local houses usually can. A national wholesale hardware house, for example, carries as many as 60,000 different items in stock, as compared to about one-half that number usually stocked by local wholesalers. Consequently, while the local wholesaler may be able to deliver goods more promptly, it is quite likely that in such a diversified field some orders will be *filled short,* that is, certain items will be omitted and sent on later. On the other

hand, in buying from the national house, while the order may be delayed, it is more likely to be filled completely when it arrives.

The conclusion from this analysis appears to be that there is a very large measure of competition existing within the field of wholesaling proper. This competition appears between regular or service wholesalers who specialize in varying degrees in the assortment of merchandise handled and in the extent of sales territory covered. All of these wholesalers, however, face common foes in the competition from outside agencies which have invaded the field of wholesaling. These related phases of competition in wholesaling will be explored in subsequent chapters.

CHAPTER 12

SPECIAL TYPES OF WHOLESALERS

In the chapters immediately preceding, attention has been given to the operations of the service or regular wholesaler, the so-called old type, full-function wholesaler, who acts as a purchasing agent for retailers and industrial consumers, and as a distributor for manufacturers' products; who carries stocks adequate to meet the requirements of his trade; and who performs the whole range of wholesaling functions as described in Chapters 8 and 9. This chapter is devoted to a discussion of a number of types of wholesalers who differ from the typical service wholesaler in one or more important respects, and yet who provide direct or indirect competition for him. Most of these types have developed within recent years and are frequently, though more or less erroneously, designated as newer types of wholesalers.

Some Factors Affecting Wholesaling.—Within the past two decades many changes have taken place in the fields of consumption, retailing, production, and distribution which have tended to affect the wholesaler adversely. Detailed consideration of these developments is reserved for treatment in a later chapter. At this point suffice it merely to enumerate a few of the more important of them:

1. A quickening in the style tempo, accompanied by a growing interest of consumers in fashion, which reacts upon the retailing and wholesaling structure as well as upon the producer.
2. A growing tendency to shop for many goods in reasonably large trading centers, thereby reducing the relative importance of the small store which the wholesaler generally serves.

3. The growth of chain systems and the multiplication of chain store units. Such retail systems generally buy their goods directly from producers in quantities which equal and frequently exceed those bought by wholesalers and at prices that are often more advantageous than those which the regular wholesaler can obtain from his sources of supply.
4. Development of large department stores and mail order houses which buy most of their requirements directly from manufacturers.
5. The growth of supermarkets, particularly for the distribution of food products.
6. Group buying by independent retail outlets, through resident buying offices or through cooperative buying associations, thereby going around the regular wholesale distributor.
7. Manufacturers' attempts to sell directly to retailers and industrial users, in hopes of reducing expenses or of increasing or maintaining their volume of business.
8. Growing use by manufacturers of facilitating agencies like warehouses for the maintenance of inventories from which to fill orders from retailers that are solicited directly by manufacturers' salesmen.

Wholesaling in a State of Flux.—The wholesaler has been vigorously crowded as a result of these changes, which, in combination with the years of constant criticism by business men, economists, legislators, and the public at large, has made his position precarious. Partly yielding to the pressure from without and partly on his own initiative, therefore, the wholesaler of the old school has been obliged to find new methods. Some of these changes have been of an internal nature, such as a reduction in the number of parallel lines of merchandise carried, the relinquishment of one or more of the usual wholesaling functions as a means of reducing operating expenses, or the development of private brands. Other changes have involved external relationships with manufacturers on the one hand and retailers on the other. For example, some of the wholesalers have reached

out and secured control of their sources of supply; others have established control of their outlets—through the opening or acquisition of retail chains; and still others have developed voluntary chain systems.

As a result of the various attempts on the part of wholesalers to meet changing economic conditions, a number of special types of wholesalers have evolved, the most significant of which, stated in the approximate order of their importance measured by volume of business, are: cooperative wholesalers (including voluntary chains), semi-jobbers, drop shippers or desk jobbers, cash-and-carry wholesalers, wagon distributors, manufacturing wholesalers, wholesaling manufacturers, chain wholesalers, branch house wholesalers, and mail order wholesalers. These various types of wholesalers are characterized by the services rendered, by the degree of integration with other planes of distribution or with production, or by the number of similar units in the organization. By far the largest number of them owe their existence either to a modification or curtailment in the wholesaling functions and services. In this group belong most of the cooperative wholesalers, the drop shippers, cash-and-carry wholesalers, wagon distributors, mail order wholesalers, and perhaps also the so-called distributing warehouses. Three types of wholesalers derive their special identity from their integration of wholesaling with other planes of distribution or with production. In this group are included semi-jobbers, manufacturing wholesalers, and wholesaling manufacturers, and possibly a fourth type consisting of wholesalers who combine their functions with those of other wholesale middlemen. Finally, chain wholesalers and branch house concerns are so designated because of their multi-unit operation. Any of the preceding types of wholesalers may operate as single unit enterprises or as a chain of units; hence this final classification is not as distinctive as those aforementioned.

In the pages that follow, each of the special types of wholesalers will be given separate consideration, except for the cooperative wholesalers or voluntary chains which are the subject for discussion in a later chapter.

Limited-Function Wholesalers

The importance of limited-function wholesalers has been grossly exaggerated. For a time their growth had been so rapid and dramatic that the regular wholesaler became alarmed. Their concentration in relatively few lines of business made competition especially keen in those fields. When the results of the first Census of Distribution became available, however, it was shown that there were for 1929 but 2,292 such establishments with an annual business of about $601 millions, compared to 74,476 establishments operated by service wholesalers with an annual volume of trade in excess of $25 billions. Similarly, in 1933 there were 3,380 establishments operated by limited-function wholesalers reporting an annual volume of approximately $360 millions, compared to 76,856 establishments of service wholesalers with a volume of business during the year more than $11 billions.[1]

Drop Shippers or "Desk" Jobbers.—There were in 1929 in the United States 583 drop shippers doing an annual volume of business of somewhat over $242 million, thus constituting the most important of the *limited-function* wholesalers.[2] When a shipment of goods is made directly from the factory to a retailer or to an industrial user on an order secured by a wholesaler and transmitted to the factory, it is generally known in the trade as a *drop shipment.* Practically every wholesaler on occasion resorts to this practice, but when a wholesaler does the bulk of his business in that manner, he is designated as a *drop shipper, desk jobber,* or *parlor wholesaler.* The drop shipper usually operates from an office, maintains no warehouses since he does not actually handle the goods, and, apart from the selling function, renders very little service to the manufacturer whose goods he distributes. He is a type of wholesaler, however, for he takes title to the goods which he orders from producers, assumes all risks incident to the ownership of such goods, extends credit

[1] Census of American Business, Wholesale Distribution, Vol. I, p. A-1. In 1935 the number of limited-function wholesalers was 5,653 and their annual business amounted to $746 million, compared to 88,723 establishments of wholesalers proper doing nearly $18 billions of business.

[2] In 1935 there were 1,029 desk jobbers doing around $362 millions of business during the year.

to his customers on his own responsibility and collects from his accounts. He operates most successfully in those lines of trade where the goods are of considerable bulk, and where the retailers can buy in carload lots or in original packages, i.e., in units in which the manufacturer normally packs his product.

Due to the limited number of functions performed, the costs of operation of a drop shipper are considerably below those of service wholesalers in the same lines of business. He passes back to the manufacturer the cost of maintaining warehouse inventories, and many other expenses incident to drayage, cartage, and the performance of administrative functions. The differences in operating expenses between drop shippers and regular wholesalers are particularly notable in bulky types of merchandise such as lumber and building materials. In that line of trade, drop shippers had a cost of doing business of 5.7% of net sales, while regular wholesalers of lumber and building materials who handled the goods operated at a cost of 17.2%. It is for this reason that drop shippers are to be found largely in such lines of merchandise as lumber and millwork and other forest products, iron and steel scrap, furniture, petroleum, coal, fruits and vegetables. Some of them also operate in the dry-goods trade where they solicit orders from a list of well-rated retailers at a price reduction that is quite attractive to the trade.

It is claimed that drop shippers came into being largely because regular wholesalers failed to supply large-scale dealers with merchandise at reduced prices by this method. It is relatively easy to enter the drop shipment business, particularly in such lines as dry goods. A wholesaler's salesman who has been discharged or who has voluntarily severed connections with his house can secure sample cards from certain mills and solicit business, first from his old customers and later from others. To meet competition from drop shippers, regular wholesalers sometimes choose to cultivate their own drop shipment business since they can thereby reduce their operating expenses and at the same time secure trade which might otherwise go directly to manufacturers. This method may also be used in the handling of "outs" and fill-in orders.

Drop shipment business, however, is not without disadvantages. Most retailers cannot buy in large enough quantities to justify their use unless it be on initial or pre-season orders. Furthermore, once price concessions are given to a customer on drop shipments, they are also expected on ordinary purchases, even though the goods are filled from warehoused stocks. Such precedents may prove troublesome in later dealings. Finally, many manufacturers resent the general practice of drop shipment, for it involves the assumption on their part of additional functions. They prefer to sell to wholesalers in large quantities in anticipation of demand from retailers, and to transfer certain functions to the wholesaler who generally can perform them more economically and thereby reduce their own costs of storage, risk, packing, billing, and accounting.

Cash-and-Carry Wholesalers.—During the era of rapid change in the field of wholesaling which began in the middle twenties, the cash-and-carry wholesale house was ushered in. Such houses were established to meet competition from other relatively new types of wholesale distributors like cooperatives, and to enable small retailers to compete with their chain-store rivals. The cash-and-carry method as applied to wholesaling had an impressive beginning; but at the end of 1929 there were only 756 such places of business with an annual volume of trade of approximately $179 millions.

While some cash-and-carry establishments operate independently, most of them are operated in multi-units, either as branches of a regular wholesaler or as a chain of such organizations. Each branch is managed by a single person, handling only the most staple class of merchandise in a given field, employing no outside salesmen, spending little for advertising—price circulars being the usual medium used—making no deliveries, and selling entirely for cash. Due to these limited services, such houses have lower operating costs than those incurred by full-function wholesalers. Inasmuch as the chief appeal of cash-and-carry wholesale houses is that of price at the expense of service, their patronage comes largely from retailers who are facing unusually keen competition from chain stores and cooper-

atives, and whose time is not fully occupied by the selling end of their business. That is probably why the grocery and food trades account for 70% of the cash-and-carry wholesalers and 80% of the cash-and-carry business of the country. Most of the remaining houses are in the tobacco business.

In the grocery field, cash-and-carry wholesalers have a cost of doing business of 5.3% as compared to an average cost of 9.3% for service wholesale grocers. In the handling of tobacco and its products, the operating expenses of cash-and-carry houses are 3.4% of net sales, while those of regular tobacco wholesalers are 7.5%. Thus, through the curtailment in stock assortment, the elimination of salesmen, and credit and delivery service, and through the reduction in general administrative expenses which such restricted service involves, cash-and-carry wholesalers are able to reduce their expenses by a third or one-half of those incurred by regular wholesalers. Consequently, the prices of many staple commodities charged by such houses vie successfully with those charged by retailer-owned cooperatives, and, in some instances are considerably lower. Limited inventories, confined to staple merchandise, are advantageous in that they tend to minimize any possibility of stock accumulations, and obviate the necessity for any elaborate system of stock control.

Against the somewhat lower prices of the cash-and-carry wholesaler must be set up certain disadvantages such as the cost to the retailer of driving his own motor vehicle to the wholesale branch, of paying cash, and of consuming time which may be utilized to better advantage in the management of the store. The service necessarily lacks appeal for the retail merchant who desires credit accommodations, convenience of buying under one roof small quantities of many types of merchandise, advisory service from salesmen, delivery service, or the advantages accruing from a concentration of purchases. These are some of the definite limitations to the further development of this type of wholesaling and may have been responsible for its slow growth to date. From a general economic point of view, one must also keep in mind the fact that the cash-and-carry method of wholesaling does not result in an absolute decrease, or in the

elimination of functions; it merely transfers some of the wholesaling functions to the retail merchant whose cost of performing them may be considerably higher. Moreover, if such method of wholesaling should develop it would tend to increase the service wholesaler's cost of doing business inasmuch as it would reduce his volume in the staple, fast moving items. Thus it is conceivable that whatever the retailer would save in patronizing the cash-and-carry wholesaler in the purchase of staples may be consumed in the higher prices charged for non-staple merchandise obtainable from regular wholesalers.

In summary, it might be pointed out that probably the greatest good which has come from this method of merchandising has been the awakening of the service wholesaler to the realization that expenses must be reduced in order that goods may be sold to retailers at lower prices. Looking at the problem objectively there seems to be no reason why a well-conducted service wholesale house cannot, in an orderly manner, fill 500 orders, for example, and deliver them to as many different merchants more cheaply than the 500 merchants can secure the goods themselves by coming to the cash-and-carry branch in an unsystematic and hurried fashion.

Wagon Distributors.—One of the types of wholesalers that has come into prominence in recent years, especially in the food trades, is the wagon distributor. This middleman, who until recently was regarded somewhat condescendingly as a wholesale peddler, is now generally designated as the wagon jobber, truck wholesaler, or truck service distributor, the newer appellations usually connoting his utilization of modern vehicles. Not unlike the ordinary service wholesaler, the wagon distributor performs the functions of buying (usually direct from manufacturers), of selling to retailers and institutions, warehousing, and delivery. Occasionally, he extends credit to his customers, takes orders over the telephone, and renders other recognized wholesaling services. He differs from the regular service wholesaler principally in that he combines the functions of selling and delivery. Instead of first soliciting orders from the retailer and subsequently delivering the goods ordered, the

wagon distributor sells and delivers simultaneously. Consequently, he maintains no separate sales force, the dual functions of selling and delivery being performed by salesmen-drivers. A second point of distinction is in the amount of business done on credit. Normally the wagon distributor sells for cash, collecting for the goods at time of sale. Another important difference lies in the variety of goods handled, the wagon distributor carrying a limited assortment of nationally advertised specialties, and fast moving items of a perishable nature that offer a substantial margin but which require constant attention.

Origin and Recent Growth.—Periodical literature has generally treated the wagon distributor as a new phenomenon, as a development of the late twenties of the current century. Others attribute the origin of the idea to Charles Fleischmann who, in the early 1870's, discarded the basket which was used for carrying orders of fresh yeast and substituted for it a horse and wagon driven by a uniformed salesman.[3] As indicated in Chapter 4, however, wagon distributors, known at the time as wholesale peddlers or perambulating wholesalers, carrying a general assortment of articles, were prominent factors in the distribution of goods in New England in the early part of the nineteenth century with some traces extending back even to colonial days. Later, certain products came to be sold direct to retailers from wagons but the extensive development of this type of wholesale merchandising occurred after 1927.

The first Census of Distribution revealed that there were at the end of 1929 in this country 817 establishments operated by wagon distributors with an annual volume of business of around $90 millions.[4] These figures are considerably smaller than those generally quoted. In fact, some writers claim that there were during that time no less than 10,000 wagon jobbers operating between 35,000 and 40,000 wagons and trucks.[5] Others, writing somewhat later, place the number of such dis-

[3] "Recruits for the Wagon," *Business Week*, May 10, 1933, p. 12.

[4] The Census reports for 1935 as many as 4,266 wagon distributor establishments with about $215 million of business during the year.

[5] C. W. Steffer, "The Wagon Jobber Steps on the Gas," *Commerce and Finance*, Jan. 29, 1930, p. 257.

tributors at about 11,000 operating between 40,000 and 45,000 trucks or wagons.[6]

This great discrepancy between the official United States Government figures and the private estimates may be explained in small part by the fact that for census purposes only those wagon distributors were canvassed who maintained a place of business; consequently, many distributors operating a single truck or wagon, with no definite place of business outside the garage attached to the distributor's residence, were no doubt omitted. This omission should not, however, seriously affect the volume of business reported. A more serious difference probably arises out of variations in the definition of a wagon distributor. At this point it should be made clear that there is a vital and significant distinction between wagon *distribution* and wagon *distributors,* although the actual functions of the driver-salesman and many of the problems are closely related if not identical. The wagon or truck method of distribution has been widely adopted by manufacturers in selling to the retail trade. The Standard Brands Company alone is said to operate about 3,500 trucks, serving more than 300,000 grocers and 30,000 bakers in the distribution of fresh yeast, coffee, tea, gelatins, desserts, vinegar, malt, and other products by that method.[7] Many other manufacturers have followed a similar practice. Such manufacturers cannot be regarded, however, as *wagon distributors,* for they are not wholesalers, but are merely engaged in the distribution of their own products. The term wagon distributor applies properly only to *wholesalers* who buy goods from one or more manufacturers and sell them to their customers. They take title to the goods and in many other essential ways act as regular wholesalers. A further cause of the discrepancy in the figures may be the confusion between wagon distributors and the number of trucks in use. While there are many wagon distributors who operate but a single vehicle, most of them have two or more trucks or wagons and many organizations operate fleets of 75 or more trucks.

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[6] R. W. McFadden, "A New Step in Food Wholesaling," *Nation's Business,* Jan., 1933, p. 63.

[7] R. W. Griggs, "Advertising Builds Background for 3,500 Wagon Salesmen," *Printers' Ink,* Oct. 13, 1932, p. 25.

Method of Operation.—Wagon distributors purchase merchandise directly from manufacturers, call on their customers at regular intervals and on a regular schedule, each truck making on the average from 35 to 50 calls per day and serving between 250 and 300 outlets each week. As one writer describes it, the truck of the distributor draws up briskly to the store, the driver enters the establishment, speaks briefly with the proprietor and returns to the truck where he selects an armload or two of merchandise. He then returns to the store, puts the jars and packages on the shelves or fits them into a counter display. Following this he presents a bill, receives payment and is off to his next call.[8] The salesmen-drivers generally work five days a week, like most salesmen of wholesalers, few calls being made on Saturday. On this day they may take inventory, attend sales meetings, lay plans for the following week, or help some of their customers to demonstrate the merchandise to consumers.

Wagon distributors operate principally in the food and grocery business, fully 86% of the total number of such distributors and about the same proportion of their total volume in 1929 being in this field. Next in importance is the petroleum business, followed by tobacco products; the book, periodical and newspaper trade; the supply and equipment business; and the automobile accessory and supply business. While wagon distributors deal in goods produced by others, they sometimes engage in some light manufacturing such as pickle packing or making horse-radish and mustard.

Advantages.—One of the big advantages claimed for this method of wholesaling is the ability to apply specialty selling to the products carried. This according to one author, involves calling the retailer's attention to each of the products handled by the salesman-driver; a determination of the quantities of each product the retailer should carry in his store; proper adjustment of intervals between calls to the needs of each retailer, and special care to see that only fresh and salable goods are kept in the retailer's stock, and that such goods are properly displayed.[9]

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[8] R. W. McFadden, "A New Step in Food Wholesaling," *Nation's Business*, Jan., 1933, p. 48.

[9] L. J. Sandberg, "Truck Selling," Business Research Studies—No. 7, Harvard University Bureau of Business Research, June, 1934, p. 6.

Specialty selling of this type is made possible by the limited number of items carried by the average wagon distributor, seldom more than a dozen items. In the grocery and food trade mayonnaise products and packaged cheese normally represent the bulk of the business. Other items are mustard, relishes, potato chips, margarine, malt extract, coffee, horse-radish, macaroni products, pickles, pretzels, cookies, spaghetti dinner packages, and certain canned meats.

Another advantage of the wagon distribution method of wholesaling is that it enables the retailer to buy in small quantities, thus keeping down his overhead; increasing his stock turnover by placing it on a weekly basis on the items sold; and offering the consumer fresher merchandise. Since the wagon distributor calls on his customers at frequent intervals, at least once a week, there is no need to overstock. It is to the interest of the driver-salesman not to overload the dealer.

Costs and Other Disadvantages.—It is frequently claimed the wagon distributor, through his combination of selling and delivery, affords an economical method of wholesaling. Logic is drawn on to show why certain economies are effected through this type of wholesale distribution. Among the reasons given are that one man is used for both selling and delivery; that one motor vehicle is used for both purposes; that only one trip is required for the performance of the two functions; that orders are subject to but a single handling; that cash sales are facilitated, and hence fewer administrative expenses are incurred as a result of credit and collection activities; that deterioration of samples is somewhat less than that of ordinary salesmen; and that record keeping and accounting procedure is simplified. It is also pointed out that wagon distribution involves practically no rent charges and storage costs, since the place of business may consist only of a garage for the housing of the trucks, together with a little surplus merchandise. When the goods are of a perishable nature, they may be stored in a public cold-storage warehouse. From these many advantages claimed for the wagon distributor it might be expected that his costs would be considerably lower than those incurred by other types of

wholesalers. This is not true, however. From the data now available, wagon distribution appears to be the most expensive method of wholesaling unless one considers the few so-called mail-order wholesalers whose costs are even higher.

In the grocery trade, according to census data, the total operating expenses of wholesalers handling a general line of groceries in 1929 were 9.1% of net sales, those of wholesalers specializing in relatively few items were 9.9%, while the operating expenses of wagon distributors in that line of business were no less than 14.5%. Similarly, in the dairy products field, wagon distributors had a cost of doing business of 30.3% as compared to 15.1% for regular wholesalers. Again, in the petroleum trade, the cost of doing business of wagon distributors was 19.2%, while that of regular wholesalers was only 15.5%. Among the exceptions to this generalization the outstanding one is in the tobacco products business where regular wholesalers incurred operating expenses of 7.5% as against 4.2% for wagon distributors.

Some explanation for the high operating expenses of wagon distributors may be found in the very combination of functions which are alleged to make for economy. In the first place, the driver-salesman is often a poor business man, having had very inadequate training. Many of them were originally drivers of delivery trucks for wholesalers or manufacturers, who, when their savings permitted bought trucks and went into business for themselves, capitalizing upon their knowledge of the trade. Incidentally, it might be mentioned that this, no doubt, accounts for the fact that a driver is usually required to sign an agreement not to enter business in his territory for a certain period of time after he severs connections with his employer. An additional element of increased cost grows out of the fact that the wagon distributor is forced to let his expensive vehicle stand idle much of the time while he makes sales and arranges the stock in the stores.

From the manufacturer's point of view, there are also several disadvantages and limitations to the use of wagon distributors as their wholesale outlets, except as supplements to the usual type of wholesaler. In the first place, it is frequently difficult to

establish connections with these distributors, particularly the small ones, since many of them are not listed nor classified anywhere, usually possess no office, and are constantly out on the route. Most trucks are loaded and on the way by 7:00 A.M., returning to the warehouse or garage between 6:00 and 7:00 P.M., making it hard for a manufacturer's salesman to contact them. Furthermore, since many of the wagon distributors operate on a small scale and are not usually well-established the manufacturer assumes considerable risk in extending credit on goods sold. Again, the ability of driver-salesmen to do specialty selling for the manufacturer has been considerably over-rated. The long hours that are required of driver-salesmen, in order to make from 35 to 50 calls per day, the heavy physical labor, the need to make minor repairs on the vehicle, and the requirement to wear a uniform, are some of the drawbacks that militate against the employment of good salesmen by wagon distributors.[10] Most of these handicaps hold true even for the independent operator who owns and operates his own wagon or truck. It is for this reason that manufacturers who have adopted this method of distribution do not rely on it altogether to open new accounts or to introduce new products, but employ true specialty salesmen for the purpose.

The types of merchandise which are suitable for wagon distribution are somewhat limited. High costs for one thing restrict the field of operation. For example, in the grocery and food business goods must be of a nature to carry a mark-up or gross margin of 20% to 25% of selling price, which practically narrows the field to perishables and semi-perishables.[11] Again, items which are bulky in relation to their price are also not suited to selling by truck or wagon distributors. Neither is this method practical for urban communities with few retailers located at a distance from one another, or for rural markets.

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[10] For a detailed description of the operations of wagon distributors see L. J. Sandberg, "Truck Selling—Simultaneous Selling and Delivery in Wholesale Food Distribution," *ibid.*

[11] The Standard Brands Company, while not using wagon distributors, uses its own wagon distribution system, as has been pointed out above, and has developed a sales policy which is illustrative of this point. It has continued to distribute Royal baking powder through regular wholesale channels, while all other products are sold through wagon salesmen. The following statement by one of the officials of the company is significant: "Because there is no logical reason from the perishable angle for frequent delivery, truck space is too valuable to be accorded to it." See R. W. Griggs, "Advertising Builds Background for 3,500 Wagon Salesmen," *Printers' Ink,* Oct. 13, 1932, p. 25.

Probably, the field in which truck distribution of foods will find its greatest expansion in the next decade will be that of quick-frozen products, and such other items as require frequent delivery and special handling.

Mail Order Wholesalers.—Mail order or catalog wholesalers sell all or the bulk of their goods by mail, by methods similar to those used by mail order houses in the retail field. Early in 1930 there were but 41 such wholesale establishments in the United States with an annual volume of business of approximately $45 million.[12] For some years Butler Brothers of Chicago and the Baltimore Bargain House were the chief exponents of this type of wholesaling. From the date of its establishment in the 1870's Butler Brothers operated as a mail order wholesale house for nearly half a century. Prior to its departure from that type of selling it issued a catalog called "Our Drummer," of which 50,000 to 60,000 were distributed monthly from its houses located in New York, Chicago, Minneapolis, Dallas, St. Louis, and San Francisco. Each catalog listed and described some 38,000 or more items which were carried in stock at all times. Most of these items were low-priced staples which appealed particularly to small town merchants in the dry goods trade or in the general merchandise field.

In the twenties of this century conditions began to develop which tended to make this method of wholesaling unprofitable. Good roads and automobiles lured shoppers to larger cities, away from the rural merchant's store. Improved transportation also enabled salesmen of regular wholesalers and manufacturers to extend their activities and sell to retailers who might formerly have been served by mail order houses. The development of chain stores and the growth of voluntary chains further accentuated the difficulties of the mail order wholesaler. Consequently, Butler Brothers, which illustrates the changes in mail order wholesaling, began to employ traveling men whose purpose was to visit the trade and build up good will. These "good-will" men soon became active in the solicitation of orders, particularly from new or dormant accounts. They were also

[12] For 1935 the Census of Business reports 189 establishments operated by mail order wholesalers, with annual business of about $14 million. Obviously, Butler Brothers is not included with this classification.

used in the "customers' service department" which was established to give aid to dealers. By 1929 a large proportion of the business was obtained through salesmen instead of by the catalog method.[13] Several steps were taken in an attempt to strengthen the mail order side of the business. Various branches were established in different sections of the country in order to facilitate the distribution of catalogs and the filling of orders. Sample houses were set up in market centers to which customers could come in person and inspect samples of merchandise to be secured from the company. All of these efforts to overcome objections to the mail order method of wholesaling were of no avail under the new conditions, and the company was finally forced to place chief reliance upon salesmen. In 1930 the Baltimore Bargain House was acquired to serve the Southeast, and a voluntary chain of Ben Franklin stores and another of the Federated dry goods stores were developed.

From the above it is apparent that mail order wholesaling is on the wane. The effort involved in preparing an order on the basis of a catalog is too great for the average retailer. Lack of personal contact with the representatives of the wholesaler, the inability to examine the goods or samples thereof, and the necessity for waiting for the shipment of goods from a distance are additional handicaps. Furthermore, costs are higher for the mail order house than for a regular wholesaler. In 1929 the operating expenses of mail order wholesalers in the general merchandise trade, where the largest of them operated, were 19.5% as compared to a cost of but 16.1% for regular wholesalers. What is saved in salesmen's salaries and expenses is more than offset by the high costs of mailing monthly catalogs, employing good-will men, operating sample houses, and maintaining branches from which to distribute catalogs and make quick shipments of goods ordered.

Integrated Wholesaling

Semi-Jobbers.—In a strictly technical sense a semi-jobber may be defined as a wholesaler who combines the functions of

[13] As late as 1923 the catalog business of Butler Brothers still proved profitable, the company making more than $3 millions net profit annually in this way. *Time,* Mar. 9, 1936, p. 65.

wholesaling and retailing with the major emphasis on the former. It is not known just how many wholesalers there are of this particular type, but data are available on the volume of retail business done by all wholesale establishments. In 1929, all wholesale organizations in the United States reported sales to ultimate consumers at retail of about $690 million or a little less than 1% of their total net sales. Regular wholesalers accounted for most of this business, selling approximately $492 millions worth of goods at retail, or about 2.5% of their total net sales.[14] For the year 1933, regular wholesalers reported sales to ultimate consumers of about 3.5% of their total net sales of approximately $11 billions.[15] These figures do not include retail sales made by wholesalers through separate retail stores which they own and operate. In some lines of trade, particularly groceries, it is not uncommon for wholesalers to operate retail chain stores in addition to the regular wholesale business. The extent of such business cannot be quantitatively measured, for lack of statistics on the subject.

The wholesaler has entered the retail business in such fields as food products, electrical goods, automotive supplies, hardware, and coal, principally as a means of insuring a permanent outlet for his goods. This policy appears feasible when competition is so keen that his very existence is threatened, as in the grocery and dry goods trades; or when the wholesale house is relatively small and the retail business is needed to sustain it; or when the retail field in a particular line of trade is disorganized and unstable, as has been true for some years of the electrical supplies and automotive equipment businesses.

The term semi-jobber is also used in another sense to apply to a retailer who engages to a limited extent in the wholesale business. Almost 2% of all the business reported for 1933 by retail stores consisted of sales to other retailers, or strictly wholesale business. The automotive line of trade occupied first place in such business, followed by stores in the food classification.[16] The retailer has assumed the wholesaler's functions in certain lines of trade in order to augment his volume of sales

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[14] Fifteenth Census of the United States, Wholesale Distribution, Vol. II, p. 81.
[15] Census of American Business, Wholesale Distribution, Vol. I, p. A-36.
[16] *Ibid.*, p. A-45.

and to secure jobber prices from manufacturers. Retail sales frequently being limited, the enterprising retailer may endeavor to dispose of his surplus purchases to smaller merchants in his community. When such an experiment has proved successful, his jobbing ambitions sometimes lead him to issue a modest catalog, and perhaps also to employ a traveling salesman to sell to smaller merchants in neighboring towns. He thus becomes known as a wholesaler and is placed by manufacturers on the jobber-list, which entitles him to certain discounts. These lower prices, however, are not apt to be justified by the quantity he buys or by the amount of actual wholesaling he does, since most of his goods are still sold at retail through his retailing establishment. Frequently, small stores are responsible for the development of wholesaling by larger retail establishments. It may begin by the small merchants calling for pick-ups from the latter, which, in the end develops into the habit of buying small quantities from such sources regularly.

In some lines of trade, the integration of retailing and wholesaling has caused considerable difficulty and strained trade relations. Jewelry wholesalers often take advantage of their central location in the community and sell substantial quantities of goods at retail though they do not ostensibly operate retail stores. Naturally, retail jewelers resent this practice and have, at their various conventions, seriously considered steps to curb the practice. Wholesale jewelers feel the same way about retailers in that business who sell to other stores. Manufacturers, on the other hand, are called upon to sell to retailers at jobber prices, receiving little practical service for their concessions. Unless the wholesaler maintains separate establishments for his retail business, his semi-jobbing practice may result in the loss of trade from retailers who resent such competition. For this reason, a wholesaler may operate retail stores in one territory and sell at wholesale elsewhere, thus avoiding direct competition with his retail customers. At best the entire practice of semi-jobbing, especially when the two functions are combined in the same establishment may be seriously questioned on historical and economic grounds. It will be recalled that in the early days of the evolution of the wholesaler these two

functions were generally combined, but since the middle of the last century a complete segregation of functions was found profitable and economical. Semi-jobbing may therefore be regarded as a backward step which is justified only under special circumstances.

Manufacturing Wholesalers.—For some years there has been a growing tendency for wholesalers to do a certain amount of manufacturing either in their wholesaling establishments, or in separate plants of their own, or by other producers under the wholesaler's label. Many wholesale grocers roast their own coffee, grind spices, package preserves, and engage in light manufacturing generally. Other wholesalers who produce some of their own goods are the confectionery wholesalers, a number of jewelry wholesalers, and most drug wholesalers. This is particularly true of the larger concerns located in the major distributing centers.

In 1929, of the 4,776 wholesale grocers in this country handling a general line of groceries, there were 111 of them who manufactured in their own places of business goods worth nearly $16 millions, which was 8% of their total sales. Among the specialty wholesalers in the grocery business the practice was more widespread. Out of a total of 3,149 of these houses, 262 sold goods of their own manufacture, amounting to 37.2% of their $60 millions total net sales. In the paint and varnish business with 565 wholesalers, 41 engaged in manufacturing, such goods amounting to 39.7% of the sales made by these wholesalers. In such trades as hardware the amount of manufacturing by wholesalers was much less extensive, probably because few items of hardware can be produced without the benefit of extensive machinery. Of the 734 general line hardware wholesalers only 20 engaged in production and the sale of such goods amounted to but 4.6% of their total sales. However, in the specialty hardware field 31 of the 741 such houses engaged in production, and the amount of goods of their own manufacture represented 30.2% of their total sales for the year. These facts indicate that manufacturing is more widely used by specialty wholesalers, and that it is not general but is largely confined to certain lines of trade.

Several advantages are claimed for manufacturing wholesalers. It is alleged that the combination of functions enables the wholesaler to keep in closer touch with sources of supply at the same time being assured of an outlet for the goods produced. If the wholesaler sells goods under his own brand, control of manufacturing operations insures him a continuous supply of goods of uniform quality. Certain economies are expected in storage and transportation. Goods can be stored in bulk and packaged and otherwise prepared for shipment only as ordered by the trade. Furthermore, if the wholesaler can perform the manufacturing function as economically as an independent producer, which is questionable, he retains the latter's net profit, in addition to his own profit as a wholesaler. Of course, these supposed economies of integration do not always materialize, but when they do, the wholesaler is enabled to extend inducements to his customers in the form of lower prices.

Wholesaling Manufacturers.—Manufacturers falling in this category are of two types, those who wholesale their own products, and those who engage primarily in manufacturing but also purchase goods from other manufacturers for wholesaling purposes without altering the form of the goods thus bought. Of course, the manufacturer is performing wholesale functions whether he sells direct from his factory or through separate wholesale sales branches maintained for the purpose, and whether his output is sold to wholesalers, industrial users, or to retailers. The term manufacturing wholesaler, however, applies more specifically to the manufacturer who, in addition to wholesaling his own products, serves as a wholesale outlet for the goods of other producers. The meat packer who buys butter and eggs for resale without further processing is an example. These items are added in order to offer the trade a more complete line of provisions, which, at the same time, allows for a better utilization of plant and distribution machinery. Operating costs are spread over a larger number of items and a greater volume of business. Similar motives have prompted manufacturers of plumbing and heating equipment who maintain their own wholesale branches to handle goods of other manufacturers in addition to their own. Other lines of business in

which this practice is to be found frequently enough to deserve mention are the machinery trade, the house furnishings field, the specialty grocery business, the chemical trade, and the farm supplies field.

Multiple Types of Wholesaling.—A frequent practice is for wholesalers to engage in two or more separate and distinct types of wholesaling. This practice is well known in the trades, and is often a subject of bitter strife and controversy. It was found that of the 74,476 regular wholesalers in existence in 1929, no less than 2,295 were of the multiple type whose business was distributed, according to functions, as follows: 77.2% as regular wholesalers, 6.8% as commission merchants, 3.3% as exporters, 2.7% as brokers, 2.6% as importers, 1.4% as selling agents, 1.2% as cash-and-carry wholesalers, 1.1% as wagon distributors, 1% as manufacturers' agents, .6% as drop shippers, and 2.1% in other ways.[17] A much greater amount of overlapping was discovered in other types of wholesaling. For example, brokers acted, as such, only to the extent of 76.2% of their business and sold 11.6% on their own account as regular wholesalers. To the extent of 4.8% of their business they acted as commission merchants, 3.4% was handled in the capacity of selling agents, 1.4% as exporters, and 1.1% as importers. This practice finds its being in the very nature of business itself. A concern engages in wholesale trade as in other business in anticipation of earning profits. Although it may select a particular method of operation, such as brokerage, the agency method, or outright merchant wholesaling, it will adhere to it only so long as it proves profitable to do so, and will not hesitate to change its method of operation, at least for part of its business volume, if the change promises additional earnings. Thus brokers often compete with wholesalers in selling to the retail trade on their own account, while on the other hand wholesalers may engage in a certain amount of brokerage business.

The extent of the practice, however, has been greatly exaggerated, and the various trades affected by it have perhaps been unduly disturbed. The bitterness which such overlapping some-

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[17] "Multiple Types of Wholesaling," Fifteenth Census of the U. S., Wholesale Distribution, Special Series.

times creates is illustrated by the activities of the merchandising broker in the food trade who, in addition to acting as a broker in representing his clients, also sells goods on his own account as a merchant wholesaler. This practice is regarded as pernicious, because it is felt that a broker cannot properly represent his clients if he has goods of his own for sale. Moreover, the broker who engages in merchandising may buy in his own name the most lucrative items and, in turn, sell them to retailers in competition with the wholesalers whom the broker commonly represents. Even the brokers themselves look askance at this practice and at one of the conventions of the National Food Brokers' Association an article was added to their Code of Ethics declaring that "a broker merchandising food products speculatively is unethical." From this condemnation is exempted, of course, the broker who buys a limited amount of goods in order to secure lower freight rates for clients who order less than a carload of merchandise. Following the same attitude the grocery trade in its Trade Practice Rules released by the Federal Trade Commission on March 14, 1932, adopted among others the following rule: "The industry recognizes as beneficial to the grocery trade the work of the duly qualified food brokers, but condemns the practice of other than bona-fide brokers acting in that capacity and receiving brokerage commissions."

No mention was made of this point in the general wholesale food and grocery code of fair competition as approved by President Roosevelt on January 4, 1934, or as subsequently amended. However, in the proposed code of fair competition for the food brokers' industry as revised for public hearing on February 27, 1934, appears a concise statement of this attitude. Section 5 of Article VII—Trade Practices—states that:

> No member of the industry shall buy and sell or otherwise trade, for his own account, in food and/or grocery products, except in cases where the purchase and sale is a necessary part of the brokerage service and each such transaction shall be reported to the Code Authority. The Code Authority, subject to the approval of the Administrator, shall determine when such buying and selling is a necessary part of the brokerage service. In no event shall such sale be made at a price below the purchase price, or prevailing market price, whichever is lower.

Multi-Unit Wholesaling

Chain Wholesalers.—In a subsequent chapter it will be shown that the chain method of operation, as it is popularly conceived, is not confined to retailing and that many wholesale organizations operate on the multiple unit principle. Suffice it to mention here but a few such organizations to indicate the extent of the practice. In the electrical trade the three largest wholesalers are of this type, including the Graybar Electric Company, the General Electric Supply Corporation, and the Westinghouse Electric Supply Corporation. In the drug trade, the McKesson & Robbins organization with its 60 some wholesale drug establishments is illustrative of this method, while in the grocery business the Francis H. Leggett Company and the Nash chain of wholesale grocery houses are examples. For some organizations the growth has been from within, while for others the multiplication of wholesale units resulted from the acquisition of existing wholesale houses. A few chain wholesalers have been established as such from the very beginning.

The gigantic buying power represented by a chain of several wholesale houses may be greater than the buying power of most retail chains. Such an organization can buy the entire output of certain plants and thus secure substantial price concessions. It can maintain an elaborate buying organization in all of the important markets at home and abroad. Goods can be imported without the use of intermediate agencies. Economies may also be effected in administration and in selling. A uniform accounting system may be perfected and installed in all the establishments. The rivalry between the different houses in the chain may help to maintain low operating expenses and promote sales. Private brands may be introduced simultaneously over a wide territory and extensive advertising campaigns become feasible. Chain wholesaling also usually leads to control of manufacturing, which may in consequence tend to modify the nature of the wholesale business of the organization.

Branch-House Wholesalers.—Technically there is a distinction between branch-house wholesaling and chain wholesaling although for census or survey purposes it is almost impossible

to discern it. In the first place, chains of wholesale houses are usually formed from without, through consolidation, while branch houses develop from within as a means of growth and expansion. Again, all units of a wholesale chain generally operate in similar fashion, while branches may vary not only in size but also in their method of operation. For instance, some branches of a given wholesaler may render all services characteristic of an old-line service wholesaler, others may operate on a cash-and-carry basis, depending upon the nature of the customers served. The various units of a chain are also as a rule larger than ordinary branches of a parent institution, and retain a high degree of autonomy with regard to internal management and operation, being responsible to headquarters only for the major policies and methods and for final results. The parent organization of a chain is frequently a holding company or a large manufacturing organization. On the other hand, branch houses are usually supervised closely by the parent organization which was in existence before the branches were established, and which is engaged primarily in the distribution of goods at wholesale. The branches are seldom distinct firms but rather represent physical extensions of the main establishment.

In actual practice, however, it is very difficult to distinguish between these two types. In fact, the structure may be so complicated as to overlap, and even to involve branches of branches. An example is the Midland Wholesale Grocery Company operating in central Ohio. The company owns several so-called branches, one of them known as the Monypenny-Hammond Company which is of the old-line type, located in Columbus, Ohio, and which in turn has several cash-and-carry branches.

Several advantages are claimed for branch-house wholesaling. It affords a practical means for expansion, combining ability to render quick service with the advantages of large-scale buying and operation. A company thus operating can cater to the varying needs of its customers by similarly varying the degree of service. Thus, some of the branches sell for cash only and make no deliveries, others operated by the same

parent institution may render full service. Inasmuch as the branches are controlled from the main house, little administrative expense is incurred and a simplified accounting system is maintained at each branch, although probably the best branch systems are those which give the manager a considerable amount of autonomy. When the latter practice is pursued, the branch manager works on a certain budget, keeps his own books and records, does some of his own buying, grants credit without reference to the home office, supervises the collection of accounts, and is in other ways directly responsible for the operations of his branch. The branch under such circumstances is also recognized as a home institution in the community in which it is located, thereby strengthening relations with customers. This is particularly true of main branches but not so much of the smaller or sub-branches which are found in growing numbers.

CHAPTER 13

CIRCUMVENTING THE WHOLESALER

There was a time when practically all goods manufactured in the United States were sold directly to retailers or to ultimate consumers. As was shown in an earlier chapter, the prototype of the modern wholesaler during colonial times, and for some years thereafter, was the importer who dealt almost exclusively in goods of foreign manufacture, and only incidentally handled merchandise of domestic fabrication. As domestic production increased and internal trade expanded the wholesaler came into being, first combining his functions with those of importing and later with retailing. Gradually the wholesaler institution evolved and producers of various lines of goods adopted that method of distribution. By the end of the preceding century the wholesaler neared his full stature, and he became so entrenched in the American system of distribution that the "usual," "orthodox," "traditional," or "regular" channels were those which utilized his services and facilities. Even today the business man refers to the channel of distribution which involves a movement of goods from manufacturer to wholesaler to retailer to consumer as the regular method of distribution. For this attitude there is much justification when factual data are considered. In 1929, manufacturers operating in fully 300 of the 326 industries for which data were collected, sold some of their goods through wholesalers.[1] Furthermore, in all but 19 of the industries a portion of the manufacturers sold exclusively in that manner, i.e., their entire output was handled by wholesalers.

None the less it is important to bear in mind that the wholesaler's pervasiveness does not connote equal importance in every

[1] Fifteenth Census of the United States, "Distribution of Sales of Manufacturing Plants," Tables 1 and 2, Washington, D. C., U. S. Government Printing Office, 1932. Unless otherwise stated all statistics used in this chapter which show the distribution of sales by manufacturers are based on this publication.

line of merchandise distribution. In some fields he has never occupied a significant place, while in others, notably groceries, hardware, drugs, and dry goods, he has been a prominent factor for many years, the bulk of such goods passing through his hands. It is on this account that these four staple lines of merchandise have been known as "jobbing lines," but it would be erroneous to assume that these are the only ones. On the contrary, the wholesaler had been used for decades for the distribution of plumbing supplies, tobacco products, and numerous other lines of trade; in more recent years the wholesaler channel has also been adopted in some of the newer fields such as electrical goods and automotive equipment.

Methods Used in Circumventing the Wholesaler.—As indicated in Chapter 9, approximately one-half of all consumers' goods manufactured in the United States is sold through wholesalers. A further computation showed that the remainder of such manufactured products is disposed of in the following fashion: 33.6% direct from factory to retailer, about 9% through the manufacturer's own wholesale branches to retailer, about 4.5% from factory to home consumer, and approximately 3.5% through the manufacturer's own retail stores to the home consumer. In the marketing of industrial goods computations indicated that fully 70% of all such goods are sold directly from the factory to the industrial user, around 12.5% through the manufacturer's own sales branches to the industrial user, and approximately 17.5% through wholesalers and distributors.

In recent years there has been a definite trend for manufacturers to sell directly instead of using intermediaries. Some of them have been satisfied with the elimination of certain functional middlemen; others have sought to go further and shut out the wholesaler; while still others have attempted to eliminate the retailer also, by going directly to the ultimate consumer either by mail, through house-to-house canvassers, or through their own retail stores. This accounts for the tremendous importance of manufacturers' sales branches, of which, as shown in Table 10, there are over 16,000 establishments

with an annual business of from 23.5% to 26% of the total volume reported by all types of wholesale organizations. These branches are wholesale outlets, owned and operated by manufacturers, largely or entirely for the distribution of their own products. About 74% of these branches carry regular inventories, and, except for the important difference that their stocks are usually limited to their own merchandise, they operate much like regular wholesalers. The remaining branches represent mere sales offices and carry no stock whatever, or only for display and sample purposes. With both types of branches the emphasis is on selling, the buying problem being minimized by the fact that they act as outlets for goods turned over to them by the parent organization, although some of them buy supplementary lines of merchandise from other manufacturers.

Data on manufacturers' sales branches in reality minimize and understate the importance of such outlets in the distribution of manufactured products, since they do not cover the oil refining industries. Most of the bulk tank stations are owned and operated by refiners and are used much like sales branches in other industries. It is probable that fully three-fourths of the 26,190 bulk tank stations in existence in 1933 were of this type.[2] These establishments, frequently designated as bulk plants or bulk stations, are wholesale places of business engaged in the distribution of gasoline, oil, and other petroleum products to filling stations, either company-owned or independent. When delivering merchandise to service stations owned by the same refining company which operates the bulk stations, the latter resemble in their activities both manufacturers' sales branches and chain-store warehouses. When they supply independent filling stations they function like regular wholesalers. Some of the largest oil companies sell to independent retailers through their bulk stations and may even supply in this manner independent wholesalers and large industrial users, although sales to wholesalers and to large consumers are made direct from producing company's headquarters or its district sales offices.

[2] In 1935, over 80% of the 27,000 bulk tank stations then in existence were either chain-operated or commission stations.

Reasons for Short-Circuiting the Wholesaler

Direct contact between retailers or industrial users on the one hand and manufacturers on the other may be initiated by either the buyer or the seller for a variety of reasons. Under certain conditions retailers or industrial consumers seek to purchase their merchandise requirements directly from the producer without the intervention of any wholesale intermediary. Again, manufacturers may be prompted to explore the possibilities of new trade channels which involve the elimination of wholesalers. In general, five principal motives account for direct manufacturer-retailer or manufacturer-industrial consumer relationships. They are: (1) the nature of the goods; (2) desire for economy; (3) competition; (4) dissatisfaction with the wholesaler's method of distribution; and (5) pressure from retailers and industrial users.

Nature of the Goods.—Direct distribution may arise, for example, from the perishability of goods. As perishable commodities should be sold in the shortest possible time, the reduction in the number of handlings is often attempted. Perishability may be due to progressive physical deterioration of the goods, as is true of fresh meats, biscuits and crackers, certain dairy products, and yeast. In the distribution of such goods, the wholesaler occupies an inferior position, as the manufacturer seeks to sell the goods directly to retailers or even to ultimate consumers, or he may operate his own wholesale branches. A good illustration is afforded by the biscuit and cracker industry, where the 375 plants sold over $23 million worth of goods, representing their annual output, as follows: 8.4% to wholesalers, 53.4% through their own wholesale branches, 34.6% direct from factory to retailers, and the remaining 3.6% in miscellaneous ways. Such distribution practices are designed to speed the movement of the product. Furthermore, they are desirable because they enable the manufacturer to safeguard the good will of the consuming public by following up his product and preventing the sale of stale and unsuitable merchandise.

Perishability may also lie in the depreciation in the value of goods due to changes in style. Millinery and women's ready-

to-wear, in general, decline in value within a short time because of frequent changes in style. Here, too, time is the very essence of profitable distribution; consequently, direct channels of distribution flourish. Thus, 69.4% of the millinery produced in this country and 83.1% of women's clothing are sold direct from factory to retailer. In the merchandising of shopping goods which possess a substantial style element, however, there is another factor at play which also tends to favor direct channels of distribution. This is the nature of the typical retailing system for such goods. Many stores which handle style goods operate on a large scale and can purchase direct in large volume. These goods are usually seasonal, and are bought in substantial orders in advance of the season. Even smaller retailers follow this practice to some extent. This does not imply that the wholesaler cannot or does not handle such commodities. Even in millinery as high as 24.2% of the goods are sold through wholesalers, 50.9% of the hosiery is so disposed of, and 21.8% of all boots and shoes are sold through wholesaler channels, although a certain proportion of the latter no doubt consists of men's shoes in the lower price ranges. It should be emphasized that when a commodity of this kind passes through the wholesaler it does not necessarily involve delay. As a result of careful study of conditions to anticipate demand from retailers, the wholesaler may at times be able to supply style goods even quicker than they can be obtained by direct buying.

The marketing of industrial goods is another field in which the nature of the product calls for more direct handling. These products often require expert technical advice and assistance in their sale, and highly trained factory representatives in their installation; or they may even be built to specification. They may also require a repair and maintenance service which can best be supplied by the manufacturer. In any event, the intervention of a wholesaler often becomes quite unnecessary for such merchandise.

Desire for Economy.—A manufacturer may be prompted to go around the wholesaler in the hope of reducing his costs and thereby increasing his own net profit. To do this he strives for greater volume than he feels he can secure from the whole-

saler who may not push the sale of the former's goods. In his desire to reduce the costs of marketing the producer errs when he assumes that going around the wholesaler automatically results in the elimination of the wholesaler's functions. The fact of the matter is that when a manufacturer sells directly to retailers he assumes the wholesaler's functions himself, thus actually entering the wholesaling business; or else he transfers them to the shoulders of the retailer. Whether the manufacturer or the retailer will assume the services formerly rendered by the eliminated middleman depends largely upon their relative strength and position. Because of their adequate financial resources and warehousing facilities, large-scale retailers such as chain stores, department stores, and mail order houses, may assume at least some of the wholesaler's functions, particularly those of warehousing, assembling, and credit, provided they can secure the goods at prices low enough to justify the performance of these functions. If the manufacturer sells to small retailers, he must ordinarily assume the wholesale functions himself.

Regardless of who assumes the wholesaler's functions under a more direct method of distribution, costs incident to their performance must be incurred. The question, then, is whether they will be higher or lower, i.e., one of relative efficiency in the performance of the task. Ordinarily, it is assumed that direct sale invariably spells lower costs and hence lower prices to customers. Sound theory casts serious doubts on such an assumption because of the strategic superiority of the specialized wholesaler which has been discussed in earlier chapters. The facts as revealed by the data shown in Table 17 bear out the theory in no small measure. In that table an attempt is made to compare operating expenses reported by manufacturers' sales branches for 38 different lines of trade with those incurred by regular wholesalers (wholesale merchants) engaged in the same kinds of business. The lines of trade chosen for this study are those in which manufacturers' sales branches occupy an important position and in which large enough numbers of branches are to be found to make the data significant. Since wholesale merchants carry stocks of merchandise in their warehouses and perform the entire range of wholesale functions it

is more appropriate to compare their costs of doing business with those manufacturers' branches that carry stocks rather than with those which are used as mere sales offices.

Even under these conditions full comparability is not gained. For one thing, manufacturers' sales branches do not perform the wholesaler's buying function, inasmuch as all, or most of their goods, are furnished by the parent company. Again, credit may be centralized at headquarters; and, as shown in an earlier chapter (Table 9), a substantial proportion of their business is with other wholesale organizations and with industrial consumers who buy in large quantities.

The aforementioned factors might be expected to result in lower operating expenses for manufacturers' sales branches, and indeed does so result in the majority of the lines. Nevertheless, it is noteworthy that of the 38 lines of trade covered by the data in Table 17, manufacturers' sales branches (with stocks) in 15 kinds of business show higher operating expenses than those of regular wholesalers, and in 5 other lines of trade their costs were less than 1 percent below those of wholesale merchants. For the remaining 18 kinds of business manufacturers' sales branches (with stocks) performed the wholesaling functions at lower costs; and, as has been suggested, some of the reduction in expense may be due to a partial shifting of functions to the main office. As might be expected, these data also confirm the fact that sales branches without stocks have lower operating expenses than those with stocks. In 28 out of the 33 lines of trade for which such statistics are shown this was true. This indicates that the most effective way for a manufacturer to reduce his operating costs when the wholesaler is eliminated is by shifting warehousing and other wholesale functions to his customers. Further, it corroborates the point of view that the elimination of the wholesaler does not necessarily involve the elimination of his functions, or bring any automatic reduction in marketing costs. As a matter of fact, if wholesalers would modernize their methods and take full advantage of their strategic position as specialists in wholesaling, it is doubtful if manufacturers in many trades could at all approach them on the score of efficiency.

TABLE 17. COMPARISON OF OPERATING EXPENSES OF MANUFACTURERS' SALES BRANCHES AND THOSE INCURRED BY REGULAR WHOLESALERS
(Net Sales = 100%)

Kind of Business	Operating Expenses of: Regular Wholesalers	Manufacturers' Branches: With Stocks	Manufacturers' Branches: Without Stocks
Automobiles and other motor vehicles	13.2%	20.1%	10.3%
Automotive equipment, accessories and parts	29.2	31.2	7.6
Beer	17.7	20.7	....
Confectionery and soft drinks	18.9	21.8	....
Drugs (specialty lines)	23.6	28.3	5.7
Electrical appliances, equipment and supplies	21.7	15.1	11.1
Fertilizer	9.2	16.9	....
Floor coverings	13.6	7.5	9.9
Furnishings, men's and boys'	18.7	15.6	9.8
Furniture	24.0	18.1	8.4
Grocery specialties	16.4	18.2	16.5
Hardware (specialty lines)	22.6	17.5	5.5
Heating equipment (general line)	34.6	26.8	16.0
Home furnishings	22.6	21.9	9.9
Industrial chemicals	14.2	8.4	9.6
Iron and steel	24.7	12.1	2.7
Machinery, equipment and supplies:			
Commercial	29.8	31.2	17.9
Construction	25.6	24.6	15.7
Farm and dairy	23.6	31.7	17.4
Industrial	22.6	21.7	7.3
Professional	30.8	20.9	11.4
Service	29.3	31.6	14.0
Meats and meat products	14.3	8.5	7.1
Moving picture films	22.3	17.0	19.0
Notions	19.9	12.9	13.6
Optical goods	39.5	41.7	....
Paints and varnishes	27.2	24.5	17.4
Paper and its products (general line)	20.5	19.7	7.2
Paper and its products (specialty lines)	19.3	13.2	7.7
Piece goods	10.6	13.1	3.9
Plumbing and heating equipment (general line)	24.9	25.2	22.7
Radios and radio equipment	23.5	13.0	4.2
Refrigerators	24.0	24.9	....
Shoes and other footwear	16.3	11.8	5.7
Stationery and stationery supplies	27.2	27.0	24.5
Tires and tubes	18.3	13.2	13.0
Tobacco and its products	6.4	6.5	2.5
Toilet articles and preparations	32.0	30.6	39.2

(Source: Adapted from Table 2-B, Wholesale Distribution, Vol. I, Census of American Business, U. S. Department of Commerce, May, 1935.)

The advantages of direct selling on the basis of economy are thus seen to be often over-rated. Even where the wholesaler's functions can be performed, either by the manufacturer or by his customers, as efficiently as they were formerly performed by the wholesaler, the only savings to be effected are those equivalent to the latter's net profit which is usually but a small percentage of net sales. In view of this slight margin, and the fact that additional marketing duties must often be assumed, together with the assumption of losses, at least during certain stages of the business cycle, economy cannot be regarded as a rational motive for attempting to eliminate the wholesaler. Indeed, it may be questioned whether the expressed desire for economy is the true motive for going around the wholesaler. Usually, there are other reasons for making the change such as the impact of competition, and the plea of seeking greater economy is used to rationalize the action taken.

Competition.—In recent years the steady growth of large-scale production has made the competitive struggle unusually severe. While there are still many small-scale manufacturers, the bulk of our fabricated products in most lines of endeavor comes from relatively few factories controlled by still fewer companies. Such large-scale production demands wide markets, and the resulting competition for business becomes keener and keener. Not only does a large-scale producer compete with small-scale producers, but he must also compete with other giant enterprises in the same line of business, and in other industries, all of which are striving to secure a portion of the consumer's dollar. To attain success in this competitive struggle some producers believe it necessary to secure more direct control over the distribution of their goods. Some manufacturers have gone so far as to sell directly to consumers and thereby retain control over all marketing activities while others have been satisfied to reduce the number of links in the chain of distribution and sell to retailers.

This process tends to become a vicious circle. A manufacturer first feels that he must control the market in order to dispose of the large quantities which he wants to produce. He

needs the larger demand to enable him to reduce his costs and his prices. As soon as a substantial demand has been created he is fired with ambition to expand his operations still further in hopes of again reducing the per unit cost of production, increasing his profits and becoming a leader in his industry. The effect is cumulative and success at one stage gives rise to the necessity for additional demand and still greater control of the market. The process may indeed continue until it falls of its own weight since there is a limit in the competitive struggle beyond which it is unsafe to proceed. After a certain point is reached costs no longer decrease and increased demand means reduced profits. Incidentally, such a process may lead to a monopoly situation containing the seeds for the disintegration of the very competitive structure which nurtured its early growth.

Dissatisfaction with the Wholesaler's Method of Distribution.—Quite frequently a manufacturer decides to go around the wholesaler because he is dissatisfied with the latter's services and general attitude toward his goods and policies. Several charges have been laid at the door of the wholesaler on this score, such as: (1) lack of aggressive selling, (2) general apathy toward the manufacturer's advertising and sales promotional program, and (3) pushing his private brands at the expense of the manufacturer's competing brands.

LACK OF AGGRESSIVE SELLING.—The manufacturer who is unsympathetic toward the wholesaler channel of distribution often claims that his products are not cultivated intensively, that his product is not aggressively represented, that insufficient time is devoted to the sale of his goods, that the wholesaler's salesmen are mere order takers and sell what the trade demands without attempting to direct or influence such demand in favor of the manufacturer's products.

In so far as these allegations are directed to the general-line wholesaler, their general validity must be recognized. Such a wholesaler carries a wide assortment of merchandise consisting of thousands of items coming from hundreds of factories. Since it is the wholesaler's desire and function to supply any commodity for which there is a demand, he is forced to handle

many competing or parallel lines of merchandise. This militates against the possibility of applying specialty selling technique to his entire stock of goods. It is a physical impossibility for his salesmen to devote any considerable amount of time to each item on every call upon a customer or prospect. Few if any salesmen could be expected to know the merits of all products in a general line wholesale establishment, so as to present an adequate number of talking points concerning each item. Constant and ceaseless effort is required to keep the salesmen acquainted with some of the merits of a few selected lines of merchandise handled by such a wholesaler. Furthermore, no additional profit would result to the house were each salesman to devote considerable time to each item carried in stock.

There are, however, conditions under which it is legitimate for the wholesaler to cultivate the field intensively for any given product or line of merchandise. Specialty wholesalers are often in a position to do so, but general line wholesalers can only under special circumstances. It would be unfair and discriminatory to push the goods of one manufacturer at the expense of those of another, unless some particular inducement is offered as compensation. A wider margin of profit may be offered the wholesaler by the manufacturer; the product may enjoy a better reputation and hence sell more readily; or it may be handled by the wholesaler on an exclusive agency basis in his territory. Under these conditions the wholesale merchant may be justified in concentrating his efforts on the sale of a given product because vendors of competing goods have the prerogative of utilizing similar methods. It should be remembered, however, that the wholesaler's function from the standpoint of producers is to act as a distributor rather than as a demand creator. This is his principal *raison d'être*. If manufacturers want additional functions performed, such as intensive sales effort, corresponding remuneration ought to be offered. The wholesaler should, of course, adapt himself to modern conditions and stand ready to cooperate with manufacturers on any reasonable program, but he cannot be expected to give special attention to each item in a general line, unless manufacturers make special arrangements for extra service. In addition to the inducements men-

tioned above, a manufacturer may employ specialty salesmen to work with the distributor's sales force, advertise extensively so as to create and maintain an adequate demand for his goods, confine his distribution to the wholesaler channel, or follow other policies that are pleasing and profitable not only to himself but to the wholesaler as well.

Apathy to Manufacturer's Promotional Activities.—The wholesaler, however, has also been accused of indifference to the manufacturer's advertising and sales promotional work, sometimes bordering on hostility and antagonism. He is particularly charged with failure to cooperate with the advertiser in the distribution of dealer-helps to the trade as well as with neglect to synchronize his sales effort with that of the manufacturer. Such an attitude on the part of the wholesaler may be explained by his desire for self-preservation. If the manufacturer's advertising and other sales promotional activities result in an increased demand for his products, he may insist that his goods be handled on a smaller margin or else he may go around the wholesaler. Enough such instances can be cited in justification of this fear. Had it not been for the successful demand creation for its products it is quite unlikely that the Procter & Gamble Company would have attempted to sell directly to retailers, a policy which was pursued for several years but subsequently abandoned because of its failure to solve the distribution problem. The action of the Winchester-Simmons Company, equally unsuccessful, is another example. While in both instances the companies returned to the wholesaler method of distribution there were attendant losses for the wholesaler as well as for the manufacturer.

Another reason for the wholesaler's alleged unfriendly attitude toward the manufacturer's aggressive advertising programs is that such promotional work converts the wholesaler into a mere machine which supplies his customers with articles in demand. It leaves him no room for initiative and judgment. The underlying assumption, of course, is that for most goods a real demand can be created through advertising, rather than mere preference or acceptance. In actual practice, this is seldom true. For most products, particularly in the convenience

goods field, all that can be achieved through sales promotional work is to make consumer *accept* or *prefer* one brand instead of another. Seldom can they be made to *insist* upon a given brand or product. Thus, the wholesaler's initiative and ability to make substitutions are not seriously affected by the manufacturer's advertising program.

Under these conditions the non-support by the wholesaler of the manufacturer's advertising and demand creation activities is a matter of no little concern to the latter. Many wholesalers favor, of course, intensive advertising programs on the part of producers, in so far as they tend to create a greater immediate demand for the goods they carry in stock. The more rapid stock-turns resulting therefrom, together with the larger sales volume, are much to be desired. The wholesaler's apparent apathy must, therefore, be explained on other grounds. His lack of cooperation is due to the very nature of his business. It is virtually impossible to give what manufacturers call "cooperation" to each and every one of the numerous producers who seek to sell through the wholesaler channel.

COMPETITION FROM PRIVATE BRANDS.—Practically every wholesaler carries some goods under his own label. Naturally, such merchandise is pushed by his sales force in preference to articles bearing producers' labels, particularly since private brands are generally used on the most profitable kinds of merchandise. Manufacturers resent and oppose this practice, feeling that it is direct competition, since a wholesaler who emphasizes his own brands ceases to that extent to serve as a distributor for manufacturers' products. While this method estranges the manufacturer, the wholesaler is reluctant to abandon his private branding policy and the problem continues as a great source of annoyance.

Desire of Retailers and Industrial Users to Buy Direct.—Quite frequently the manufacturer is forced to sell direct instead of through wholesalers because of the pressure brought to bear upon him by retailers and by the larger industrial consumers. In the hope of securing the goods at lower prices, department stores, mail order houses, and chain stores attempt to purchase

directly from producers or at least without the intervention of a wholesaler. Even the small retailers often combine into cooperatives for the same purpose. The preceding paragraphs have already shown the extent to which the manufacturer engages in wholesaling when he sells directly to retailers. It may, therefore, be appropriate at this point to indicate to what degree the retailer engages in wholesaling when he buys directly from manufacturers.

Some retailers, such as department stores and local chains, do not operate separate warehouses for the maintenance of the reserve stocks which must normally be carried under a direct buying policy. With the local chain, for example, whatever warehousing is required may be done by one of the larger units or by the parent organization; consequently, it is impossible to ascertain to what degree the wholesale functions are assumed by the other stores. In the larger chains separate warehouses and offices for this purpose are maintained. In addition to doing their own wholesaling, chain store warehouses sometimes sell certain quantities of merchandise to outside retail organizations. In 1933, the amount disposed of in this manner was 17% of their total volume. During that year the 462 chain store warehouses in this country reported an annual business of nearly one and one-half billion dollars, or 4.5% of the business of all wholesale organizations.

As already implied, the wholesale functions performed by the chain store warehouse are analogous, in a measure, to those of independent wholesalers. They maintain merchandise stocks, break bulk, deliver and bill the merchandise to the retail outlets, operate an accounting department to keep records of purchases and deliveries, and employ a supervisory force of store inspectors which works in much the same manner as the sales force of the typical wholesaler. These supervisors do not normally make sales or take orders, but they do perform the important function of liaison officers and keep the warehouse headquarters informed as to the actual marketing conditions and new developments in the field.

The chief points of difference between chain store warehouses and regular wholesalers are threefold. First, for more

than 80% of the goods handled by the chain store warehouse there is no selling problem, for the goods are delivered to the retail stores of the same company. For the same reason, there is no credit problem and no loss from bad debts. Again, a considerable proportion of the goods sold by the retail units of a chain does not pass through the warehouse but is delivered directly by the vendor to the stores desiring the merchandise. This minimizes the amount of handling, maintenance of stocks in the warehouse, and breaking bulk by the warehouse for delivery to the retail units. This means that these wholesale functions are passed back to the manufacturer or other vendor. It is largely for these reasons, and perhaps also because of relatively greater efficiency than obtains in the average wholesale establishment, that the operating expenses of chain store warehouses are considerably lower than those of regular wholesalers. In the general line grocery business, for example, chain store warehouses for 1933 reported a cost of doing business of 4.3% of their net sales. This compares with 9.3% for regular wholesalers, and 5.8% for limited-function wholesalers. It is felt, however, that were the operating expenses computed on the basis of the goods actually handled through the warehouse which were less than 80% of all goods billed through it, the percentage would be considerably above 4.3.

Another large buyer who insists on buying direct from manufacturers instead of from the wholesalers or industrial distributors is the industrial consumer. Financial strength, adequate storage facilities, and bargaining power due to large-scale purchases, enable him to secure better prices than otherwise obtainable. In his desire for business the vendor usually succumbs to this pressure.

Conditions Favoring Direct Manufacturer-Retailer Contact

Many producers of consumers' goods have undertaken to go around the wholesaler, but unless conditions of production or retailing are propitious and definitely favor direct contact between manufacturer and retailer the plan is neither feasible nor economical. These conditions are: large-scale production, a

strong financial position of the manufacturer, routinized production, manufacture of a long line of merchandise, manufacture of products of a high unit value, production of perishable or style goods, large-scale retailing, purchases by small stores in substantial quantities, a small number of retail outlets, a densely populated market, and the use of public warehouses for distribution purposes. Unless one or more of these conditions exist no attempt should be made to sell direct to retailers. Even then a manufacturer may, for valid reasons, still adhere to the old and regular channel for the marketing of his products.

Large-Scale Production.—No small manufacturer can afford to market his goods directly to the retail trade unless his market is confined to his immediate locality. The size of his plant and his limited output do not permit him to organize and maintain an aggressive sales force of sufficient size to cover the trade adequately. The expense of direct distribution would prove prohibitive and handicap the producer competitively. Even when the manufacturer operates on a fairly large scale and wishes to experiment with new or more direct methods of marketing, he may be precluded from carrying out his wishes by lack of financial resources. It requires considerable capital to maintain an adequate sales force to call upon retailers and to finance the latter's purchases on the usual credit terms. The manufacturer's financial weakness often makes it imperative that he rely on the wholesaler's assistance, and when this is coupled with small-size operation the wholesaler becomes practically indispensable.

Routinized Production.—The condition of a manufacturer's production organization may be a determining factor in choosing channels of distribution for his products. If the organization is in its early stage of development and the producer is preoccupied with production problems, and is experiencing difficulty in establishing the manufacturing processes, it behooves him to leave the marketing task to the wholesaler. If, however, the work of the plant has become fairly routinized, authority for its supervision may be delegated to a responsible factory manager, which leaves the general management ample time to

delve into possibilities of modifying and altering the existing method of distribution. The feeling may be strong, that inasmuch as the production problems have been solved satisfactorily, there is no reason why the marketing problems cannot be solved equally well. The fact is often overlooked that the technique of marketing and production are quite different.

Manufacture of Long Line of Merchandise.—Most manufacturers are highly specialized, short-line producers, making a single item or a very limited number of items. Under these conditions, other things being equal, direct distribution is far from feasible except at rather high cost. It should be avoided unless very unsatisfactory selling conditions make improved distribution at almost any cost essential to the success of the business. The number of manufacturers that produce complete lines, or families of related products, which are capable of supporting the cost of direct cultivation of retail trade is small indeed. The H. J. Heinz Company with its 57 varieties is a good example of a manufacturer who may be able to afford to go around the wholesaler. Other examples are furnished by producing organizations which have resulted from mergers such as the Standard Brands Company and the General Foods Company, or by such large corporations as the General Electric Company and the Westinghouse Electric & Manufacturing Company. It is interesting to note, however, that while the completeness of the lines produced by these four organizations makes direct contact with retailers possible and economical, they have apparently found that indirect distribution for many of their items is even more economical, as witnessed by the fact that large quantities of their goods flow through wholesalers' warehouses.

High Unit Value of Product.—A manufacturer who produces goods of a high unit value is in a position to get orders from retailers which are sufficiently large to justify the expense of direct manufacturer-retailer selling. This is particularly true of such goods as automobiles, tires, radio sets, pianos, mechanical refrigerators, cash registers, adding machines, typewriters, furniture, and vacuum cleaners. The handling of such

goods requires a considerable investment in inventory in order to display the goods properly with the necessary assortment of sizes and styles. Furthermore, installation service must be available for some of the commodities, as well as provision for guarantees; supply parts must be maintained for others, and repair service available when necessary. For these reasons, it is argued, it is best for a manufacturer to establish and maintain direct connections with retailers. Not only that, but such relations should be as close as possible, frequently attained through the exclusive agency agreement. In consonance with this belief, 52.3% of the furniture is sold direct from manufacturer to retailer, 42.7% of the safes and vaults, and 38.2% of the automobiles produced in the country. A further step has been taken by some manufacturers who feel that, with such commodities, eliminating the wholesaler is not enough. Direct selling to ultimate consumers has been attempted either through their canvasser-salesmen or through retail stores of their own. This is illustrated by the marketing channels used for cash registers, adding, calculating, and tabulating machinery of which fully 30.7% are sold through the manufacturer's own retail outlets, and 44.9% are sold direct to industrial and other large consumers.

Manufacturers of some commodities of high unit value market their goods through the wholesaler to a considerable extent. For example, 80.2% of the radio sets are so sold, 32.8% of the domestic fuel-oil burners, 45.6% of the electrical storage batteries, and 33.2% of the motor vehicles. In most of these trades the wholesaler handles the goods on an exclusive agency basis for his territory which he cultivates intensively. The explanation given for selling high unit value commodities through wholesale distributors is four-fold. First, the wholesaler obligates himself in advance to dispose of a certain quota of the product which leaves the manufacturer free to plan his production according to a definite schedule. Again, the wholesaler provides financial assistance, either directly through loans and advances or indirectly through purchases on short terms followed by prompt payment. The wholesale distributor is also in a better position to maintain satisfactory repair service

in his territory than are the retailers. Finally, manufacturers have found that distances from retailers make it extremely difficult to select proper and adequate representation, and to supervise their work. If the wholesaler method of distribution is relied upon, these matters can be delegated to the wholesale house which is in close contact with the trade.

Perishable and Style Goods.—In preceding pages it has already been pointed out that producers of perishable products or of articles which possess a substantial style element tend to sell their goods directly to retailers. It reduces the time element and makes possible closer supervision of the quality of the goods when they reach the consumer. In this wise, the hazards incident to physical deterioration or to obsolescence are reduced to a minimum.

Large-Scale Retailing.—Chain stores, department stores, mail order houses, and certain unit stores handling shopping and specialty goods, ordinarily buy a large share of their merchandise directly from manufacturers at wholesale prices, or through representatives such as resident buyers, agents, and brokers. Such retailers buy in large quantities, secure quantity and other discounts, obtain economies in transportation, may be able to store the goods as efficiently as a wholesaler, and retain for themselves the wholesaler's net profit. In fact, their savings may be even more substantial, because they need not employ wholesale salesmen or create outlets for the goods they buy, and are often able to secure special allowances for advertising purposes. Moreover, they obtain favorable credit terms including large cash discounts, and succeed in passing on to the manufacturer some of the wholesale functions while retaining the wholesale price advantage. Whether a manufacturer is justified in giving such preferential treatment to some of the large-scale retailers is a much disputed question that is discussed elsewhere in this treatise.

The above should not be taken to imply that large-scale retailers, particularly department stores and the smaller chains, buy exclusively from manufacturers. On the contrary, many of their purchases are from regular wholesalers, either in the

form of fill-ins or because the retailers may not care to stock certain items in their warehouses. Again, some of the wholesalers are so large, carry such an assortment of stock, enjoy such unusual prestige, and have such popular private brands that even the large-scale retailer may find it advantageous to patronize them. The Rice-Stix Dry Goods Company and Carson-Pirie-Scott, both in the dry goods field, and the Francis H. Leggett Company, makers of Premier Brand Goods, in the grocery business, are illustrative of wholesalers who sell substantially even to large-scale retailers.

Quantity Purchases by Small Stores.—Large retail organizations are not the only ones to buy in substantial quantities. Many small retailers buy cooperatively in groups or through a resident buyer, and obtain the advantages incident to large-scale buying. Others purchase in large quantities individually and independently because of the nature of the merchandise in which they specialize. Men's clothing stores are an illustration. Even the relatively small store in that line of business can buy in large enough amounts to warrant direct contact with the manufacturer. In the first place, such a store generally confines its stock of merchandise to the product of a single producer, frequently on an exclusive agency basis. It may carry the Hart Schaffner & Marx clothes, or it may specialize in Society Brand, Fashion Park, or Kuppenheimer apparel. Occasionally, two or more nationally known brands are combined, but seldom is it necessary for men's clothing stores to buy from a large number of manufacturers. In the second place, the goods are seasonal in character. This means that a substantial proportion of the merchant's requirements for the entire season is bought at one time, generally when the manufacturer's representative makes his visit. "Fill-in" orders for the remainder are placed almost automatically by mail as the exigencies of the season's business demand. Furthermore, producers of such goods as men's clothing generally manufacture a complete assortment of sizes, styles and colors so that the consumer's needs may be satisfied by the retailers with the products from a single source of supply. What has been said about stores specializing in

men's clothing also applies to stores handling shoes, furniture, typewriters, automobiles, electrical appliances, and musical instruments. Only the cheaper varieties of these goods are usually sold through the wholesaler except when they are intended for the small country store, or when other factors militate against direct-to-retailer selling.

Small Number of Retail Outlets.—If a producer intends to sell exclusively on a highly selective basis, i.e., to a single store or to a few selected stores in a given community, the heavy expense of direct contact may well be justified, since the individual orders are likely to be of substantial size. This method is well illustrated by the policy and practice of a New York manufacturer of costume jewelry. Only 3 salesmen are employed who cover the entire United States, visiting the same stores about four times a year. On these trips communities with less than 100,000 inhabitants are considered too small to cultivate and even in a city of 300,000 population probably no more than 3 or 4 retailers would be called upon, including as a rule one of the leading department stores and one or two of the outstanding jewelry stores. The orders obtainable from the smaller stores would be entirely inadequate considering the expense of selling.

Direct-to-retailer selling, under normal conditions, is not adapted to convenience goods such as groceries and hardware, nor is it generally applicable to shopping goods. In the handling of such merchandise, the number of retail outlets is too great for direct cultivation. Wholesalers are particularly strong in those lines in which there are considerable numbers of retail outlets, since the sale of each item to such stores is apt to be individually small.

Densely Populated Market.—Other things being equal, it is more feasible to go around the wholesaler when the manufacturer sells in a densely populated area than in a market where population is sparse and retailers are widely scattered. Even small retailers dealing in convenience goods might be cultivated with reasonable economy in populous communities. Goods can be shipped in carload lots to such a market, from which they

are distributed to the stores by truck with stops at short intervals. Under such conditions the maintenance of local warehouses may be warranted as well as the employment of salesmen to solicit the business. Thus, direct selling in the New England, New York City, and Chicago markets may be practical, while an attempt to follow a similar policy in other parts of the country might prove burdensome and expensive.

Use of Public Warehouses for Distribution.—Another factor which may facilitate direct selling is the use of public warehouses. There are now a number of public warehouses in this country in which manufacturers can rent space for the maintenance of local stocks. This is a substitute for the establishment and maintenance of branch houses. An agreement with a public warehouse for space is entered into which involves no capital outlay, and which can be contracted or expanded as warranted by business conditions. The manufacturer can employ his own sales force to solicit business, and the goods are supplied to customers from the warehouse. Even when a producer operates his own branches, stocks are sometimes carried at the public warehouse if the latter proves more economical.

Conditions Favoring Direct Sales to Industrial Users

Just as there are circumstances under which it is feasible and even profitable to go around the wholesaler in the sale of consumers' goods, so it is also in the distribution of industrial or producers' goods. The principal criteria in choosing direct versus indirect channels relate to the nature of the goods, position of the seller, the market to be cultivated, and relative importance and scale of operation of the buyer.

Nature of the Goods.—In the industrial field, many commodities are in the form of expensive machinery and installations. These frequently require expert advice in ascertaining the exact needs of the potential customer, and may even necessitate the preparation of specifications that will fit the machinery and equipment to the needs of the user and to his plant. Much assistance is required, not only in making these sales, but in installing the product and in demonstrating its use under existing

conditions. Goods of this type usually call for skilled repair service that can be rendered on short order. Thus, to handle such technical products, salesmen and engineers trained in the factory of the producer are often necessary. Again, when the item is of a high unit value, direct contact with the industrial user, while not essential, becomes practical from an economic point of view. This no doubt accounts for the fact that 58.4% of the machine tools are sold direct from factory to user.

Position of the Seller.—If the seller of the product is financially strong and can maintain the necessary sales force and repair service in his markets, assuming that either the unit value of the goods is high enough, or that the line produced is sufficiently extensive to justify it, he may sell direct to industrial users without the intervention of a distributor. Such practice is also justified when the vendor desires, or finds it essential, to pursue an aggressive sales program. This is particularly warranted when the use of the product centers about a new method of operation or when the product is not well established. While some distributors, especially those of the specialty type, are prepared to sell aggressively and intensively, the maker of the product is in a better position to do so if circumstances permit it.

Nature of the Market.—For certain commodities the market is highly concentrated geographically, and for others the number of potential customers or users is small. In each of these two instances direct contact with industrial users becomes a practical proposition. The textile machinery industry affords a good illustration of the first point, since most of the users are concentrated in New England and in a relatively small section of the South. That, no doubt, largely accounts for the fact that 88.5% of the products of this industry are sold direct to industrial users. The second point may be illustrated by the industry producing motor vehicle bodies and motor vehicle parts. In this industry fully 83.8% of the output are sold direct to the makers of automobiles and other motor vehicles.

Position of the Buyer.—Some buyers purchase in large quantities and insist upon direct contact with the producer of

the semi-manufactured product, machinery, equipment, or whatever he may desire to purchase for industrial use in his factory. It is more than a coincidence that 74.2% of the output of blast furnaces in the iron and steel industry is sold directly to industrial users, or that 56.9% of the product of the steel works and rolling mills is so marketed. Buyers of these goods usually purchase in large quantities, probably booking a season's supply in advance (usually consisting of three months' requirements), hence they need not resort to steel warehouses or other wholesale distributors. The latter cater to the small buyers or are used for emergency deliveries. In certain industries or for particular firms, the real buyer of industrial goods may be a high executive of the organization, while the purchasing agent is merely carrying out instructions. Under such circumstances the highest type of selling must be utilized. Sometimes it is essential for a high executive of the selling company to contact the buyer personally, as direct selling is the only practical method when such conditions exist. These conditions are apt to prevail when the merchandise is of an unusually high unit value as in the shipping industry. It is understood, for example, that the president of a shipbuilding company frequently does the selling himself. This is because the value of a single ship may run into millions of dollars, and the president of the shipping company is very apt to make the final decision as to the ship he will buy.

Conclusion.—In concluding this chapter on circumventing the wholesaler, it should be emphasized that there is no single best way of distributing merchandise which may be applied generally to all commodities or to any very significant group of commodities. Each producer should analyze the market for his wares thoroughly before making his final decision on distribution channels. Only by the employment of competent marketing research specialists can the best method be evolved for each particular commodity. The following chapter discusses other possibilities which may be utilized either as substitutes for or supplementary to direct distribution.

CHAPTER 14

RÔLE OF AGENTS AND BROKERS IN THE WHOLESALING MECHANISM

An integral and vital part of the wholesaling structure of the United States is represented by the large number of trading organizations which do not acquire title to the goods in which they deal. The institutions falling in this classification are commonly designated as functional middlemen, since they seldom, if ever, perform all of the wholesaling functions but specialize instead in a limited number of such activities. At times they confine their operations to a single wholesaling function or to a part thereof. Ordinarily, they do not buy or sell outright but merely act as agents for others for whom they make purchases or sales. They operate as independent enterprises, taking the place of the client's buying or selling department, and deal principally in negotiatory functions, but not in the risks and duties which center about the ownership of goods. The two principal subdivisions of functional middlemen are agents and brokers, the distinction being based primarily upon the continuity of representation of the principal rather than on legalistic grounds.

A little over 20% of the total volume of business transacted by all wholesale institutions is accounted for by functional middlemen of the agent and broker type. In 1929 these organizations numbered over 18,000, in 1933 nearly 14,000, and in 1935 around 18,000. The most important of them on the basis of numbers, are manufacturers' agents, brokers, commission merchants, and selling agents.

Taken from the standpoint of annual volume of business, which is more significant, commission merchants lead, followed by brokers, selling agents, and manufacturers' agents.[1] Among

[1] Unless otherwise specified, data pertaining to functional middlemen are based upon the census results contained in Fifteenth Census of the United States, Distribution Vol. II, and Census of American Business, Wholesale Distribution, Vol. I.

the others are auction companies, resident buyers, purchasing agents or companies, export agents, export brokers, export commission houses, import commission merchants, import manufacturers' agents, import selling agents, and factors.

As shown by the data in Table 9, agents and brokers as a whole are used largely as a means of going around the wholesaler, the initiative coming principally from the producer, but occasionally from the retailer or industrial user. Of the total business reported for 1933 by agents and brokers, 41.2% consisted of sales to industrial users, 26.1% represented business with retailers, and almost one-third (32.5%) with wholesalers. This latter fact is indicative of economic conditions which do not permit producers even to sell directly to wholesalers without some assistance of an additional wholesale middleman. The broker is the middleman more often found rendering this service, as shown by the fact that fully 53.8% of the business reported by brokers is with wholesalers and only 13.9% consists in dealings with retailers. On the other hand, the business of "other agents" comprising auction companies, resident buyers, and purchasing companies was largely with retailers, 63.3% being accounted for in that manner.

Commission Merchants.[2]—From the standpoint of volume of business, commission merchants constitute the most important group of functional middlemen. Both in 1929 and 1933 they accounted for 6.8% of the total volume of trade reported by all kinds of wholesale organizations.

They transact business in their own names, take possession of the consigned merchandise, usually store it in their places of business, condition the goods and otherwise prepare them for the market, sell them at the most advantageous prices, make deliveries to purchasers, extend credit at their own risk, deduct the commissions and other charges, and remit the remainder of the

[2] The various definitions used in this chapter are more descriptive in nature than definitive, and are adapted from definitions which were originally prepared by the authors in connection with the First Census of Distribution and published in a bulletin entitled "Wholesale Distribution-Definitions and Classifications," Washington, D. C., U. S. Government Printing Office, 1931; also in Fifteenth Census of the United States, Distribution Vol. II, Washington, D. C., U. S. Government Printing Office, 1933. Similar definitions were prepared by one of the authors in connection with the Census of American Business which were published in Wholesale Distribution, Vol. I, U. S. Department of Commerce, 1935.

proceeds to their principals. Though they have direct physical control over the goods which they handle on a consignment basis, commission merchants do not take title to the goods they sell for clients. This does not mean that commission merchants do not occasionally buy goods outright and operate as merchants rather than agents. In fact, in certain lines of trade it is quite common for commission merchants or commission houses, as they are frequently called, to combine some merchant business with that of commission dealing. In 1929 it was found that of those commission houses that engaged in multiple types of wholesaling 17.2% of the business was on their own account in the capacity of wholesale merchants buying and selling goods as regular wholesalers, and about 13% as shipper's agents.[3]

When commission merchants act in the capacity of agents they always represent sellers who may be producers, or shippers located in local growers' markets and in secondary market centers. Shippers often consign goods to commission merchants without advance notice, but the relationship between such an agent and his clients is not continuous in a contractual way as is true of manufacturers' or selling agents. In the raw cotton trade, commission merchants are usually designated by the term "factor" which must not be confused with the factor operating in the textile trade. Factors in the raw cotton trade actually engage in the distribution of the commodity. They usually advance funds to growers or country buyers of cotton; warehouse the product when it is delivered to them; grade it; sell it; and remit the proceeds after deducting commissions, interest on the money advanced, the amount of the loan, and other charges. In addition, commission merchants supply shippers with market information and, in the grain trade, may also help their clients in procuring freight cars, and look after the inspection, weighing, and grading of the goods. The commissions charged obviously vary with the line of merchandise involved, being as low as .8% or 80 cents per bale on raw cotton;

[3] T. N. Beckman, and N. H. Engle, "Multiple Types of Wholesaling," Fifteenth Census of the United States, Wholesale Distribution, Special Series, Publication No. W-251, Washington, D. C., U. S. Government Printing Office, 1933. Other data used in this chapter in connection with multiple types of wholesaling are based upon this study.

about 5% on produce; and as high as 10% or 12% on dairy products.

Although commission merchants operate in many lines of business, approximately 75% of them, representing a similar proportion of their total volume of business, deal in agricultural products. The most important farm products handled by them, in the order of dollar volume importance, are livestock, grain, fresh fruits and vegetables, cotton, and poultry and its products. A large proportion of the middlemen dealing in manufactured products are in the piece-goods trade followed by groceries and foods other than farm products, and finally by lumber and millwork. In the other lines of trade in which commission merchants are to be found, they occupy a relatively insignificant position.

It is claimed that in the marketing of livestock and grain the commission method has proved especially satisfactory because the commodities are highly standardized, allowing meaningful quotations to be published. Federal and state governments cooperate in supervising the trading in these goods, which enjoy a continuous and ready market, and commission men are organized in these fields to prevent dishonest practices. When goods are unstandardized, the market is slow or unsteady, sharp practices prevail, and the use of the consignment method is hindered. Shippers have long been suspicious of commission men, because charges and commissions are sometimes unreasonable and remittances are uncertain both as to amount and time, and there are no real means of checking upon agents' activities. This dissatisfaction with the consignment method on the part of the shipper has been accentuated every time dishonest practices have been uncovered. Consequently, as soon as risks were sufficiently reduced through better transportation, some degree of standardization of the goods, and improved market information, wholesalers in the various city markets have become willing to assume the risks incident to direct purchase of perishable goods. This has led to a general decline in the commission method of dealing in such fields as fresh fruits and vegetables, but even here there are conditions which keep the commission method of dealing alive. Since this method presents a ready

outlet at all times, surplus goods can always be disposed of through this channel. Small quantities as well as large ones, unstandardized as well as graded products, good quality as well as inferior quality merchandise, can be sold for whatever the market may bring. The secret of success in dealing with commission merchants probably lies in the choice of honest and efficient houses. Operating expenses of commission merchants are generally low, being approximately 1% to 2% in livestock, 1% to 2% in grain, 2% to 3% in cotton, 6.5% in fresh fruits and vegetables, 3% to 4% in piece goods, and 3% in grocery specialties.

Brokers.—There are three types of functional middlemen whose activities are so similar as to be confusing to the student of wholesaling. These are brokers, selling agents, and manufacturers' agents. Among functional middlemen, brokers rank second only to commission merchants in importance. These middlemen negotiate transactions between buyers and sellers without having direct physical control over the goods. Brokers may represent either buyer or seller in a given transaction; that is, they act as agents for producers who wish to dispose of their products in the most advantageous manner, or for wholesalers, retailers, and industrial users who are desirous of buying certain commodities on the best available terms and prices. Where they specialize in serving purchasers, they are called buying brokers. As a rule, they are free lances who are not bound to any set of clients, but in each instance take care of that end of the negotiations which is to the interest of the principal.

Brokers do not take title to the goods to which their negotiations apply, nor do they actually handle the merchandise or finance their clients. There is some overlapping in functions among brokers but it is very small indeed. Approximately 6% of the merchandise brokers (as distinguished from stock brokers and real estate brokers) fail to confine themselves entirely to the brokerage business. A little less than 12% of their business is on their own account as wholesalers, and about 5% of their volume is handled in the capacity of commission merchants. The power of brokers as to prices and terms of sale is usually

limited by their principals, whose confirmation may be required before a transaction can be definitely consummated. As already suggested, the relations of brokers with any one client are not always continuous as they are with most types of agents. Every transaction stands alone, although the same broker may, if his services prove satisfactory, be called upon by a given client to represent him in a series of transactions. This practice varies from trade to trade, however, and in certain grocery lines brokers do maintain continuous relations with the manufacturers.

In addition to performing the negotiatory functions incident to buying or selling, the chief function of brokers is in advising their clients as to market conditions; for knowledge of such conditions, of sources of supply, and of available outlets for goods is their main stock in trade. Normally, brokers do not handle the invoices and have nothing to do with the amounts involved. As soon as a bargain is concluded, a memorandum is issued to the principal stating among other items the prices, terms of sale, delivery conditions, and in due time the commission is collected for the service. Not unlike commission merchants, brokers operate on a commission or fee basis. Brokers differ from commission merchants, however, in several important respects. As they do not handle the goods, there is no need for cartage, warehousing, grading, preparation for the market, and delivery. Consequently, they require no elaborate place of business, the broker's operations being conducted from an office and sometimes from his residence. Since their functions and power over the disposal of the goods are limited, they charge smaller commissions than commission merchants, although they generally deal in larger quantities. A final point of distinction is that brokers may represent either buyers or sellers, whereas commission merchants always represent sellers.

Although brokers operate in practically every line of merchandise, their activities are highly concentrated in a few lines of business. Probably three-fourths of the business reported by brokers is in the following trades, arranged in order of their volume of business based on 1933 data: food and grocery specialties, piece goods, fresh fruits and vegetables, cotton, grain,

livestock, and petroleum products. In the food and grocery specialties trades production is seasonal, often on a small scale, and far removed from the consumption markets; hence the operators are unable to maintain their own sales force to call upon wholesalers or large retail buyers, and the services of brokers in locating the best outlet at any given time are utilized. Similarly, in the piece-goods field, especially cotton cloth in the grey, many of the producing mills are too small to maintain their own sales force; furthermore, the industrial users who buy such goods, particularly when large purchases are involved, prefer to employ the services of brokers in order to conceal their own identity at least until the deal has been consummated, in hopes of securing better prices and terms. With goods that are highly standardized and unbranded so that the same grade can be obtained from a wide variety of sources, buying brokers often perform a useful function. The broker's commission or fee is usually based upon the value of the goods or the physical quantity of merchandise bought or sold. These brokerage charges not only vary with the different commodities, but also fluctuate somewhat from one section of the country to another. Variation is equally great between items in the same general line of merchandise, as shown by the typical commissions and fees presented in Table 18.

Operating expenses vary considerably with different lines of trade and also with the stage in the business cycle, usually being higher during periods of business stress, because of the smaller volume of business and certain irreducible overhead. Brokers dealing in grocery specialties have a cost of doing business approximating 1.3% of volume of business. For those dealing in piece goods, the cost is around .5% of the dollar volume of business involved; cotton brokers have a cost of .7% to 1.3% on the average; fruit and vegetable brokers, 2.5% to 3.2%; grain brokers, about 1%; and livestock brokers, from 1% to 1.8%.

Selling Agents.—The study of selling agents is confused by the fact that in some lines of trade they may be called commission houses, commission agents, or selling houses. Under

Table 18. Some Typical Commissions or Fees Charged by Brokers

Commodity or line of goods	Commission or Fee
Cabbage	$15 per car
Canned goods	2% to 3% or $55 per car
Coffee (green)	1%
Cotton (raw)	50c to 80c per bale
Cotton piece goods and yarn	.6%
Dairy products	2.1%
Flour	10c per barrel
Foodstuffs (sugar, canned vegetables, dried beans, canned and dried fruits, cereals, etc)	1% to 3% (average 2.7%)
Fruits (fresh)	2% or $55 per car
Grain (purchases)	.4%
Grain (sales)	.3%
Groceries (canned foods, nuts, dried fruits, pickles, vinegar, etc.)	1% to 3% (average 2.6%)
Hay	$5 per car
Hides and skins	1%
Hides and leather	2.2%
Ladies' clothing	5%
Leather	3.4%
Meats	1% or $30 per car
Milk (evaporated, condensed, and powdered)	4.5%
Oats	$7.50 per car
Potatoes	$15 per car
Onions	$15 per car
Salt	$8 per car
Sugar	4½c per bag or $18 per car
Tea	2%
Vegetables (fresh)	2% or $55 per car

these various names they operate in many lines of manufacture, but are rarely found in the agricultural products field. In the order of importance their predominance seems to be in piece goods, coal, textiles such as yarn, hosiery, notions, and knit goods, and in metals. They also deal in food and grocery specialties and in normal times sell large quantities of lumber and millwork. The lines of goods handled are usually supplementary rather than competitive. These agents are independent business enterprises operating on a commission basis, whose distinctive feature is that they normally handle the entire output of their clients, with whom they maintain continuous contractual relationships. They are authorized to sell everywhere and have no restrictions on their power over prices, terms, and other conditions of sale. In addition to performing the selling

function, they furnish market and style information to the mills they represent and, frequently, also extend financial assistance. The latter function may take one of several forms, such as a direct advance against the client's warehoused goods on which a lien is obtained as security, endorsing the client's promissory notes so that they may be more readily acceptable at the commercial banks for discounting purposes, or cashing sales in advance and guaranteeing the mill's accounts. When financial assistance takes this last-mentioned form, selling agents also perform for their clients the credit and collection function.

Few selling agents engage in multiple types of wholesaling. Only some 7% of them, chiefly the larger ones, do a small amount of brokerage business and, in addition, sell about 5% of the goods on their own account as merchant wholesalers.

In the textile trades and in the canning industries selling agents have persisted for many years, due largely to their early entrenchment and to the relatively small size of the mills in these fields of manufacturing. It is economical for the sales force of a single selling organization to handle the goods of 20 or 30 plants and mills rather than for each manufacturer to maintain his own sales force. The same reasoning applies to the maintenance of a trained staff to gather style and market information. Moreover, many of the mills are financially weak, unable to wait until the expiration of the normal credit period for payment from customers. Such firms need some financial assistance so that they may continue with their production program before the selling season is opened. Again, close personal relationships frequently exist between selling agents and their clients. Very often there are interlocking directorates, or the treasurer of a mill may be a direct representative of the selling agent who, in turn, may be financially interested in the manufacturing organization. Under such conditions it becomes embarrassing and even impossible for a manufacturer to sever his relations with the selling agent even at the expiration of the annual agreement.

The selling agent form of marketing seems to be best when the manufacturer operates on a small scale, needs financial assistance, produces a limited variety of merchandise which re-

quires fairly wide distribution, and when he needs continuous representation in the markets. Because of the lines of merchandise in which they deal, selling agents dispose of large quantities of their goods to industrial consumers (48.9%), the remainder being divided almost equally between wholesalers and large retailers.

The commission charged by selling agents varies, naturally, with the kind of merchandise and with the degree of service that is rendered a given client. On staple goods in the textile trade it is not less than 2% if the accounts are not guaranteed, and for style goods with their attendant risks the commission may be as high as 5%, while on novelty goods it may run to 10%. Even in a single trade, the commission may vary with the type of merchandise. Thus, on silks the amount charged when no credit service is involved is around 3.5%. When loans are made to a client a separate commission is charged and still another fee when accounts receivable are guaranteed.

While the information on commissions is meagre, data are available on the operating expenses of selling agents. Those agents who specialized in the sale of piece goods reported an operating expense figure of 2.9% for 1933 and 3.9% for 1929. Expense ratios, based on total volume of business during 1933, for selling agents specializing in other kinds of merchandise were as follows: hosiery, 4.1%; notions, 3.1%, and as high as 8.4% in 1929; knit goods, 2.3%; grocery specialties, 5.1%; metals, 4% and as low as 2.7% in 1929; coal, 4%; and lumber and millwork, 8.6% and as low as 4% in 1929.[4]

Manufacturers' Agents.—Like selling agents, manufacturers' agents always represent producers and likewise maintain a continuous contractual arrangement with the same clients. They differ from the former in the following respects: manufacturers' agents sell only a part of the producers' output, are limited as to the territory in which they can operate, seldom

[4] For historical and descriptive material on selling agents see: Paul T. Cherrington, "The Commercial Problems of the Woolen and Worsted Industries," pp. 83-95, Washington, D. C., The Textile Foundation, Inc., 1932; for a critical appraisal of the selling agent and his organization, see M. T. Copeland, and E. P. Learned, "Merchandising of Cotton Textiles," Business Research Studies—No. 1, Harvard University Graduate School of Business Administration, Mar., 1933.

finance their clients, perform fewer functions in that they may not warehouse the goods and do not perform any credit and collection service, are limited in their authority as to prices and terms to be offered to buyers, and generally charge smaller commissions. Their principal duty is to sell goods in accordance with the desire of their clients, but they are to be distinguished from ordinary salesmen in that they are in business for themselves as entrepreneurs, and represent two or more manufacturers of allied or supplementary lines of merchandise. Thus, a manufacturer's agent located in a middle-western city may operate over a territory comprising parts of two or three states handling goods of perhaps 50 or 60 producers. In this wise, a single sales force secures representation for a number of small producers, or for those who are manufacturing a single item of relatively low unit value, much more economically than is possible for each such producer to supply for himself.

While manufacturers' agents operate in many lines of trade, their activities are fairly concentrated in relatively few. These are, in the order of their importance measured by dollar volume of sales: machinery, equipment and supplies, particularly of the industrial and construction type; dry goods, with especial emphasis on piece goods; men's and women's furnishings, including hosiery; food and grocery specialties; furniture and house furnishings; iron and steel; industrial chemicals and naval stores; and plumbing and heating equipment and supplies. Only 5.5% of the manufacturers' agents also handle goods on their own account, the proportion of their business of this type being 11.3%.

It appears that the services of manufacturers' agents are best utilized when:

1. A manufacturer has ample financial strength for production purposes, hence does not require the assistance of a selling agent, but lacks additional pecuniary strength to organize and maintain his own sales force.
2. A manufacturer produces a single product or a narrow line of goods of low unit value. Under these conditions it may be too expensive to maintain a separate sales force.

3. The market is at a distance, making sales cultivation from the home office too expensive.
4. The market is sparsely populated and customers and prospects are located at a distance from each other. The cost involved in traveling long distances between calls and the time consumed in such travel make it impractical and uneconomical for the producer to sell through his own organization.
5. The manufacturer and his product are unknown or when a product of an established producer enters a new field. In these cases the manufacturers' agent who is usually well known in his territory lends his prestige to the unknown product. After the market has been established the producer may undertake to sell his goods through a controlled sales force of his own, without incurring any undue risks.
6. A producer wishes to secure entrance to a certain group of prospective customers, particularly railroads and large industrial users whose purchasing agents are more or less inaccessible.
7. Continuous representation in the market is necessary and brokers and commission merchants cannot be used to advantage.

The sales agreement entered into by the manufacturer and this type of agent usually stipulates the territory to be covered, the class of purchasers to be solicited, the frequency of calls, prices and terms of sale, terms for returns and allowances, and the amount of commission to be paid. Other details may be covered such as specification of the units in which the goods should be sold. The rate of commission charged by manufacturers' agents, like that of brokers and selling agents, varies considerably with the nature and unit value of the product, degree of competition, extent of sales effort required, fertility of the trade territory to be covered, class of customers to be cultivated, amount of repeat business to be expected, and similar considerations. The number of functions performed for the client in addition to selling, such as warehousing, credit, and repair service, is another factor in determining the rate of com-

mission. Rates may vary from as low as 2½%, on a line where average sales run into four-digit amounts and are readily made, to more than 25% of sales on lines where sales are in small quantities and surrounded by difficulties. Perhaps some notion of the size of commissions received may be obtained indirectly from data showing operating expenses of manufacturers' agents in several different lines of business. Agents who specialize in naval stores report a cost as low as 1.6% of sales, while those dealing in industrial machinery have a cost of 13.6%. Other cost figures, ranging in between, are 4.2% for agents specializing in hosiery; 2.3% for those dealing in food and grocery specialties; 3.4% for piece goods (as low as 2.4% during 1929); 7.5% for agents in furniture and house furnishings (6.7% on the average in 1929); 7.5% for iron and steel (2.8% in 1929); 6.3% in industrial chemicals; and about 11% for manufacturers' agents specializing in plumbing and heating equipment and supplies.

Auction Companies.—Next in importance among the functional middlemen operating in the domestic market are auction companies which are concerns that sell by the auction method at wholesale. Sales are conducted under definite rules and are usually made to the highest or best bidder. Such concerns do not take title to the goods but handle them for clients on a commission or fee basis. They provide a place for the public inspection and sale of merchandise that has been consigned either directly to them or to auction receivers. On their own responsibility auction companies may extend credit to purchasers, but after the sale has been consummated the company must remit the proceeds, less the commission and other charges, to their clients. In many respects auction companies operate like commission merchants, the principal distinguishing characteristics being that with the auction companies the sales are public rather than private and are usually made to the highest bidder.

The largest number of auction companies operate in the leaf tobacco business, but the greatest volume of sales made by such organizations is in fresh fruits and vegetables. Almost 90% of the total volume of trade of auction companies with estab-

lished places of business is accounted for by these two kinds of business. Livestock, floor coverings, furs and skins, jewelry, and furniture are the other fields in which auction companies operate to some extent, their relative importance being more or less in the order listed.

The charges made by auction companies for their services vary with the different lines of merchandise and the different sections of the country even when the same goods are involved. For fresh fruits and vegetables the commission ranges from 1½% to 3%, the customary charge being around 2%. In addition, there is a charge to the seller for unloading the car and assorting the shipment, and the buyer may be required to pay a certain amount per package for handling the goods for him and making delivery. Auctions operating in the leaf tobacco markets usually charge 25¢ per 100 pounds and 2½% of the proceeds, with a minimum charge of 75¢ per 100 pounds. This fee includes the selling service, warehousing, handling, and insurance on the consignments. On furs the commissions usually vary from 3½% to 5% of the value received from the sale, depending upon the volume of annual sales for a given client, the former applying to those for whom $250,000 worth of goods or more are sold during the year, and the latter to all clients whose annual business is less than $25,000. In handling cattle the most common rate is 75¢ per animal in large consignments and $1.00 per head in small consignments.[5]

Auction companies, like commission merchants, always represent sellers or shippers. They are best adapted to goods that are highly standardized and graded, and of which there is an ample supply from day to day and from year to year in order to attract large numbers of buyers. They are also to be recommended when quick disposal of goods is desired and there is little or no confidence in the commission method of dealing through private negotiations. The auction method is at times an economical means of marketing, presumed to allow free play of supply and demand. The publicity attending auctions tends to assure fair treatment of vendors, and is useful in establishing

[5] For a complete discussion of this subject, see "The Auction as a Method of Marketing in the United States," by Richard C. Larkins, unpublished thesis for the Master of Arts Degree at the Ohio State University, 1935.

prices which are used as a guide in private dealings. On the other hand, drawbacks are that the buyers attending auctions have little opportunity to shop around, sellers must take the price offered or withdraw the goods, bidding is sometimes sluggish with resultant low prices to shippers, malpractices such as collusion of buyers (especially when the number of buyers patronizing the auction is small) and puffing on the part of sellers have developed, so that expected economies have not always been realized. While the costs of doing business of auction companies are low, being 1.4% of net sales in the fruit and vegetable business, 3.2% in leaf tobacco, and 3% in livestock, which keeps their commission charges reasonable, it should be noted that there are other marketing costs included in the auction method. To the commission fee of the auction company must be added the commission charged by *auction receivers,* to whom the bulk of the goods handled by the auction method in the fruit and vegetable business is consigned; also the commission charged by buying brokers when retailers and jobbers seek to have such representation at the auctions.

Purchasing Agents.—Companies or firms under this designation are commonly referred to as syndicate buyers. Among well-known organizations of this type in the general hardware field are the Biddle Purchasing Co. and Oliver Bros., Inc. Such organizations are independent middlemen who buy merchandise for their clients and supply them with valuable market information. They are to be distinguished from so-called purchasing agents employed in manufacturing plants who are not in business for themselves and in reality are not agents, any more than a salesman is an agent of his employer except in a narrow legalistic sense. Purchasing agents combine orders from a number of wholesalers or retailers and buy on a larger scale than would be possible for the individual concerns whom they represent. For the very large wholesalers they are utilized more for the market information which they are able to supply. They are paid either on a commission basis or on a flat rate per month or per annum.

Organizations similar to purchasing companies, functioning in the dry goods trade, are usually denominated *resident buyers.*

The relationships of both types of buying agents with their clients are continuous and not intermittent as are most dealings with buying brokers. Resident buyers are located at central markets and are in close contact with manufacturers in those markets and with their clients at outlying points. Normally they represent the interest of buyers, although occasionally they may also represent sellers. Their cost of doing business is approximately 2.5% of their volume of trade, as compared to a cost of some 3% for purchasing agents. The functions of these two types of buying middlemen may be summarized as follows: (1) to buy goods for which large combined orders can be placed; (2) to purchase fill-ins as required by each client; (3) to serve as a guide to home buyers or clients when visiting the market; and (4) continuously to furnish price, style, and trade information.

Factors.—Factors dealing in cotton and in naval stores, as indicated above, really represent but another title for commission merchants, since their functions and activities are much alike. There is, however, another class of factors who are actually textile bankers, specializing almost entirely in rendering financial services to their clients. This type may be illustrated by the Textile Banking Company or by the Commercial Factors Corporation, companies which specialize in cashing sales, i. e., in advancing the client his money upon delivery of duplicate invoices as evidence that the goods were shipped to the customer. These companies, like other factors operating similarly, investigate and approve credit risks before they are accepted, and assume all risks of loss on such credit transactions. They collect the accounts from customers, who are notified on the client's invoices that remittances are to be made to the factoring house. Such houses also make advances on inventories to which they take legal possession and as the goods are sold they are released for shipment in exchange for invoices to buyers as collateral, or upon payment of a proportionate part of the loan. In this manner, the manufacturer who utilizes the factor's services can secure more liberal financial accommodations than his bank can afford to give him. He is relieved of the credit and collection

function, is enabled to buy for cash or to discount his bills, and is left free to give his entire time to production, styling, and marketing. The charge normally made in cashing sales in advance varies from ¾ of 1% to 2% flat on the invoices, plus 6% interest, depending upon the character of the business, the average maturities involved, and the nature of the credit risk.

From the above it is apparent that factors are actually non-trading organizations and do not perform any negotiatory function like other agents and brokers. They are included here because historically they sprang from a trading organization, the selling agent, from which they split away as specialization in functions progressed; also because the work of factors is so closely related to the functions of wholesaling, particularly when the credit and collection service is considered. Occasionally, the factor arranges for a selling agent for his clients or becomes one himself. He may also study the client's market and make recommendations.

It is estimated that these factors do about a billion dollars of business annually[6] and through the entrance into that business of regular finance companies they have spread to such fields as furs, shoes, petroleum, paper, glassware, and other industries. From producers in these industries factors buy accounts receivable, guarantee the credit risks, and bill and collect from customers. A recent development has been that of factors for factors. An example is that of James Talcott, Inc., which re-factors the business of local factors, correspondents, and associated companies that have regional experience.[7] Because of their intimate knowledge of the industries in which they deal the factors are liberal in their loans to producers and as a result of their specialized knowledge of credits they succeed in keeping losses from bad debts down to a minimum.

Brokers and Agents in Foreign Trade.—Finally, there are a number of agents and brokers who facilitate the handling of our foreign commerce through their negotiatory functions. Some of them specialize in exports and are known as export brokers, export commission houses, export manufacturers'

[6] "Factors' Billion Business," *Business Week*, April 4, 1936, pp. 22 and 24.
[7] *Ibid.*

agents, and export selling agents. To these might be added customs brokers who are expert in all matters pertaining to imports and exports, such as duties, consular fees, necessary legal documents, invoices, the tariff laws, and in the proper packaging and routing of shipments. Such brokers are commonly found in or near our importing and exporting centers.

Export commission houses generally represent foreign clients in the purchase of American products. They may furnish their clients with market information and perform incidental functions connected with the technique of shipping. They may also sell for American firms goods consigned to them, such sales being made to buyers located in the countries in which they sell. These houses more often specialize in markets rather than in commodities, as is also true of other export agents.

Despite the variety of export agency types, their importance is but slight, accounting for about .5% of the business reported by all wholesale organizations in this country. The business of import agents is even less significant, varying from .1% to .5% of the business of all wholesale institutions. Among these import agents are to be found import commission merchants, manufacturers' agents, and selling agents who represent foreign sellers in the American market. Normally, a single agent represents a number of clients whose imports are too small to justify setting up their own importing staffs. The agents also attend to customs formalities and receive their compensation in the form of commissions.

With this discussion of functional types of wholesale middlemen is ended the description of the wholesaling system of the United States as it exists today. The following chapter examines some of the leading wholesaling systems found in other countries.

CHAPTER 15

MODERN WHOLESALING ABROAD

A comparative analysis of modern foreign wholesaling techniques with those found in the United States should equip the student with an understanding of the fundamental importance and widespread prevalence of wholesale trade. It is, furthermore, of interest to note the differences which now prevail in the United States from those found in Great Britain since, as noted in Chapter 4, wholesaling in the United States was originally an extension of wholesaling in England. British Empire countries will be examined first, at some length, followed by briefer treatment of selected countries in Europe, Latin America and Asia.[1]

Wholesaling in Great Britain[2]

Wholesale Merchants.—Domestic manufacturers in Great Britain have much the same wholesale outlets open to them as do American manufacturers in the United States, such as wholesale merchants, agents and brokers, and direct selling. Of these the wholesale merchant provides a channel which is at once the oldest and the most outstanding sales outlet in Great Britain, particularly for such goods as groceries, hardware, dry goods, and drugs. This is true despite the inroads made by the growth of multiple stores (chains) and consumers' cooperatives. The wholesalers in England, as in America, sometimes

[1] A primary difficulty presented itself in the preparation of this chapter due to the absence of statistical data. Canada is the only nation outside of the United States which has taken a Census of Wholesaling. Consequently, only such information is available on foreign wholesaling systems as the careful, trained observer can collect. The authors have been greatly assisted by the Bureau of Foreign and Domestic Commerce which has been collecting information for a report on foreign distribution systems through its foreign commerce officers. Information thus obtained is similar to that which was available for the United States before the first Census of Distribution was taken.

[2] The authors are indebted to Mr. C. E. Lyon, Chief of the European Section of the Regional Information Division of the Bureau of Foreign and Domestic Commerce, for much of the information contained in this section. Mr. Lyon was formerly attached to the London office of the Department of Commerce and is familiar with the economic structure of Great Britain from his personal experience as a foreign commerce officer of the United States Department of Commerce.

combine the functions of manufacturing with their wholesaling activities. Private branded merchandise, chiefly in textiles, is an illustration of this practice in England.[3]

Agents and Brokers.—Agents, brokers, and factors are employed widely in British wholesale trade. Manufacturers who prefer to specialize in production frequently utilize agents to sell their entire output. The practice is common to treat the agent as a sales manager, who receives his remuneration in the form of a commission on the goods sold. Such agents often perform additional functions such as the maintenance of stocks in their own warehouses. This is said to be a common practice in the textile trade. They correspond to manufacturers' and selling agents in the United States and are frequently indistinguishable from *factors*. In England the factors often take title to the goods they handle and thus operate as independent middlemen not far removed from the wholesale merchant. In addition, they frequently perform the financing functions for their principals, the manufacturers.

In addition to their operations for domestic producers, agents are found in foreign trade, where they serve foreign producers. In this trade they frequently operate under the title of *sales representatives* in order to secure the benefits of a more advantageous classification for income taxation. For the same reason the agent may designate himself as a *commission man* representing a foreign exporter, and thereby becomes classified as transacting business *with* Great Britain instead of *within* Great Britain. The functions of brokers are not clearly differentiated from those of agents. The broker is usually thought of as a member of the General Produce Brokers' Association, a group of foreign trade intermediaries. The prevalence of English auctions in the general produce trade is responsible for many brokers, who serve in the capacity of auctioneers in the United States.[4]

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[3] Wholesalers may have developed this means to counteract the growing practice on the part of retailers of buying style goods direct from manufacturers, and thereby eliminating the wholesalers' services.

[4] J. Anton DeHaas, "The Practice of Foreign Trade," p. 154, New York, McGraw-Hill Book Co., Inc., 1935.

Distribution of Agricultural Products.—The agent as well as the merchant, and other types of wholesaling institutions, notably auctions and exchanges, are found in the wholesale trade of farm and plantation products. Agents are active in the grain trade, for example, where they not only buy grain from the farmers but often supply the farmer with seed grain. The grain trade is organized on much the same plan as found in the United States. There are country assembly points where wholesalers purchase the grain from the farmers, and central markets or "corn" exchanges for the sale of domestic and imported grains. Some of these exchanges, especially those at port cities, specialize in the handling of imported grain, while others, such as the London Corn Exchange, are important markets for the home grown products. The assembling function is particularly important in Great Britain for agricultural produce, where the procedure followed parallels closely that found in the United States.[5]

It should be noted that Great Britain is much more dependent upon foreign sources of supply for foodstuffs than is the United States. Consequently, importers and other wholesale middlemen in the foreign trade market play a correspondingly more important rôle in Great Britain. In recent years, however, the British government has interested itself in domestic agriculture and has enacted laws which cover every aspect of agricultural production and distribution. These include subsidies, crop control, and preferential import duties. It will be interesting to watch the effect this legislation will have upon the wholesale distribution structure.

Eliminating the Wholesaler.—The same general attitude towards marketing problems prevails in Great Britain as in the United States. It is urged that distribution costs are too high and that the existence of too many middlemen must be the cause. Therefore, middlemen, especially wholesale middlemen, should be eliminated to shorten the marketing chain and thereby reduce marketing costs. This specious reasoning is, fortunately, not accepted by all Britons any more than it is by all

[5] For a discussion of British practice see James Stephenson, "Economics of the Wholesale and Retail Trade," pp. 144-145, London, Sir Isaac Pitman & Sons, Ltd., 1929.

Americans. The few who are familiar with the economics of wholesaling realize the inevitability of wholesaling in one form or another.[6] There is, however, in actual business practice the attempt to eliminate the wholesaler by *direct selling* and *direct buying* as there is in the United States.

British manufacturers engage in some direct selling to the retail trade, consisting in the main of sales to consumer cooperatives; [7] department stores; chains, or multiple-shops as they are called in that country; and mail order, or post order, houses. British manufacturers make little use of wholesale branches or warehouses for direct selling since the territory covered is so small that deliveries can be made from production centers to retail markets in any part of the United Kingdom within 24 hours. Since British manufacturers export a large proportion of their output, a location accessible to the sea with branches abroad is preferable to inland branches. Foreign manufacturers likewise find it sufficient to maintain a single branch in England for selling or warehousing, and even for production. This branch is usually located at a population center, such as London, which is the chief wholesaling center, not only for Great Britain, but for the entire British Empire.

Of the large-scale buyers dealing directly with manufacturers, department stores appear to be the oldest and most important. They operate on much the same pattern as do those in the United States, although they appear not to have made the same progress as yet, either in volume of business or in merchandising techniques. Mail order selling exists but is relatively less important than in America.[8] The chain store system, while of quite recent origin in Great Britain, has made very rapid headway. "It has invaded one trade after another till now we find it in meat, fish, provisions, dairy-produce, teashops, sweets, tobacco, drugs, boots, clothes of many kinds, furs, jewelry, and books." [9] It is difficult to measure quantitatively

[6] For British authors who have explored this field see *op. cit.;* also William Campbell, "Wholesale and Retail Trade," Ch. II, London, Sir Isaac Pitman & Sons, Ltd., 1929.

[7] It will be pointed out in a later section that consumers' cooperatives produce a considerable proportion of their own merchandise. However, it should be mentioned that they "are still exceedingly large buyers from other manufacturers, particularly as their customers are more and more demanding branded articles." "Merchandising Survey of Great Britain," compiled by Lord and Thomas and Logan, Ltd., London, 1930, p. 62.

[8] William Campbell, "Wholesale and Retail Trade," p. 65.

[9] *Ibid.*, p. 61.

the position of the chains and other newer types of merchandising in the British situation, but the following estimate is helpful.

Any exact statement of the numbers and turnover of these different institutions is impossible owing to the deplorably backward condition of British statistics: but Mr. Neal hazards the guess that small independent shops account in numbers for some 90% of the total of roughly 500,000 retail outlets, but in turnover for only 50-60% of the aggregate trade. The remaining 10% of the number and 40-50% of the turnover are covered by large-scale institutions. Department stores handle perhaps 7½% of the retail turnover; multiple shops other than cooperatives and fixed price chains incorporate some 40,000-50,000 outlets and handle 15-20% of the turnover; cooperatives handle some 12-15%; while large fixed price chains, such as Woolworth's and Marks and Spencer, make up the remainder.[10]

The extent of the chain store movement in Great Britain is further indicated from facts quoted by Mr. Arthur Savile in a lecture to the Bradford Textile Society given February 4, 1935. "There were," he said, "not less than 32,000 shops controlled by multiple concerns, in this country. According to several recognized authorities, although multiple shops and cooperative stores represented only about 6% of the total number of shops in the country, they enjoyed nearly 40% of the turnover (total sales). It was interesting to note that the number of private retail traders had increased in spite of the growth of multiple and chain store organizations." [11]

The growth of the multiple-shop, however, with its direct buying from manufacturers has been a matter of no little concern to the wholesale merchant, even though such concern may not be founded in fact. The following statement as to the effect of the chain development upon the wholesaling structure in England illustrates this attitude.

The position of wholesalers without multiple shop affiliations is becoming decidedly precarious. In some cases wholesalers have become purchasing agents for multiple-shop organizations or for organizations of retailers, and in others they have established multiple-shop organizations of their own. Many wholesalers, on the other hand, are doing all they can to assist the private shopkeeper to maintain his individuality

[10] *The Economist,* Nov. 12, 1932, reviewing "Retailing and the Public," by Lawrence E. Neal.

[11] *Financial Times,* Feb. 5, 1935. London Press Items to the United States Department of Commerce from Alfred Nutting, Clerk, American Consulate-General, London, England.

even to the extent of offering financial assistance during difficult periods. The intelligent wholesaler, however, has realized that it is only by maximum efficiency on the part of his organization, particularly in the matter of service, that he can hope to maintain his position.[12]

The Consumer Cooperative Movement.[13]—The marketing structure of Great Britain has been greatly influenced by the presence of a strong consumers' cooperative movement in the retail and wholesale fields, and to some extent in production. Furthermore, the somewhat restricted growth of the chains in England can, no doubt, be attributed, at least in part, to the early entrenchment of the Cooperatives.[14]

In 1931 there were 1,397 cooperative societies in Great Britain with a combined membership of 6,404,000, which represents an increase of 40% in eight years. Sales for 1930 were £327,794,000 (more than a billion and a half dollars). Employment was afforded to 253,000 persons who received, in 1930, salaries and wages totaling £32,958,000 and averaging £130 per annum per employee, a figure which falls within the minimum wage limits of $10 to $15 per week which was prescribed for retail trading in the United States by the retail code prepared under the National Recovery Administration. The depression apparently did not seriously affect the movement. The volume of sales dropped to £315,273,719 in 1933 but membership increased by over half a million. The year 1934 saw a further increase in membership to 7,245,675 and a growth of sales volume to £337,849,224.[15]

Wholesaling Activities of Cooperatives.—It was not until some 20 years after its inception that the British consumers' cooperative movement successfully entered the wholesale field.

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[12] "Chain Store Development in Great Britain"—Department of Commerce, Trade Information Bulletin No. 697, May, 1930.

[13] Much of the data on the British consumers' cooperative movement is based upon a report on "The Development and Importance of the Industrial Cooperative Movement in Great Britain," by Marcel E. Malige, American Consul in Glasgow, Scotland, June, 1932, which was made available by the Bureau of Foreign and Domestic Commerce. The authors also drew upon an article by R. A. Palmer, General Secretary of the Cooperative Union of Great Britain and Ireland, entitled "Economic Significance of British Consumers' Cooperation," in the National Marketing Review, Vol. I, No. 4, May, 1936.

[14] The British consumers' cooperative movement was founded in 1844 by 28 flannel weavers in Rochdale, Lancashire, who established the Rochdale Equitable Pioneers Society for the purpose of supplying their own wants by joint purchasing, and thereby stretching their meager incomes, and incidentally eliminating the middleman.

[15] R. A. Palmer, National Marketing Review, Vol. I, No. 4, p. 299.

Attempts to establish wholesale societies had been made as early as 1831 and again in 1850 but failure had followed each effort. Finally, the English Cooperative Wholesale Society, Limited, was established in 1863, and met with such success that it is now rated as "the largest single private trading force in the British Empire."[16] In addition to the English Wholesale Society, a Scottish Wholesale was organized in 1868 with headquarters at Glasgow and later a third, the Irish Agricultural Wholesale Society, Limited, was established in Belfast. The success of this type of wholesale business has been such as to justify closer scrutiny, especially in view of the recent interest in consumers' cooperatives in the United States. According to Mr. Malige:

> The success of the English (wholesale) society must be attributed to the remarkable growth of consumer cooperation in England and to the equally remarkable manner in which the English cooperative movement as an absolute unit has supported this society. Its membership is composed of practically every cooperative retail society in England and Wales, besides about one hundred societies of other types, to produce a total of 1,091 in 1930. It supplies the . . . English cooperators . . . with almost one-half of their purchases from retail societies, a fact the more remarkable when it is realized that a large part of the sales of such societies cover such items as milk, eggs, butter, vegetables and other perishable foodstuffs which must be obtained, at least in part, direct from local farmers.

In Chapter 12 it was pointed out that manufacturing has been combined with wholesaling to a small extent by some American concerns. In Great Britain, it is interesting to note that the cooperatives have developed a large productive organization. They own, for example, large tea plantations, orange groves, fruit farms, and a fleet of ships, as well as numerous factories. For the British Wholesale Society production averaged in value approximately £30,000,000 annually during the years 1926-1932, representing 37½% of all goods sold by the society. Mr. Malige adds, however, that "this proportion has shown a declining tendency in more recent years, concurrently with an increase in the sales of agricultural products." For the Scottish Wholesale Association the corresponding figure for goods pro-

[16] Report from Marcel E. Malige, American Consul, Glasgow, Scotland, June 16, 1932, entitled "The Development and Importance of the Industrial Cooperative Movement in Great Britain."

duced by the Society was nearly one-third of its annual turnover of £17,000,000. Continuing the report, it is pointed out that in Scotland:

> The society numbers as its members two hundred fifty retail cooperatives, which obtain about one-half of their requirements from it. . . . The rate of growth of the Scottish society during the past decade has not been so pronounced as that of the English organization. The reason lies in the fact that consumer cooperation is more highly developed in Scotland than in England, with consequently less scope for expansion.
>
> JOINT OPERATIONS OF WHOLESALE SOCIETIES. An excellent illustration of the remarkable success of consumer cooperation in Britain lies in the joint operations of the English and Scottish wholesale societies. The most important are conducted under a separate organization known as the "English and Scottish Joint Cooperative Wholesale Society, Limited." The two parent bodies purchase their tea, coffee and cocoa through this intermediary which in 1930 had a turnover of £7,721,000. It claims to be the largest single organization in the world concerned in the growing, blending and packing of tea, its sales in 1931 (106,000,000 pounds) exceeding the entire imports into the United States of that product by more than one-fifth.[17]

In conclusion, it may be said that wholesaling in Great Britain, while basically similar to the pattern found in the United States, differs in several important respects. Perhaps the most outstanding distinction lies in the existence of the great British consumers' cooperative movement which has no parallel in the United States.[18] This movement, which has been tried repeatedly in America but without taking root, has been a factor in shaping the competitive structure of the British marketing system. Because of its strongly entrenched position the newer types of merchandising have not grown rapidly.

This slower development of competitive practices, such as the chain systems and department stores may, in part, account for the relatively more important position the wholesale merchant apparently maintains in Great Britian as compared to that of the regular wholesaler in the United States. The British wholesaler, however, has had his market narrowed by the com-

[17] Marcel E. Malige, *op. cit.*

[18] It is recognized by the authors that a small consumers' cooperative movement exists in the United States and that there is a current revival of interest in the movement which may lead to a greater expansion in the future, although past experience leads to an opposite conclusion.

petition of the cooperatives, since they either buy direct, or else manufacture their own merchandise. Another point of difference is that export and import houses are of comparatively larger importance in Great Britain than in the United States, owing to the greater volume of foreign trade handled. Finally, the smaller wholesale trading area of Great Britain has limited the necessity for producers' branch houses, which are, as a consequence, much less numerous proportionately than in America.

Canadian Wholesaling

Wholesale trade in Canada presents some interesting contrasts with the mother country and with the United States. Canada has gone farther than the United States at certain points and far beyond Great Britain, in collecting marketing information, and as a consequence a very clear picture of the volume and extent of Canadian wholesale trade is available. Data have been gathered at the Annual Censuses of Merchandising and Service Establishments each year since 1930, and published in considerable detail, both geographically and by trade lines. Monthly indexes are also reported covering sales and inventories of some 200 regular wholesale houses in nine different lines of trade.[19]

In Canada, as in the United States and Great Britain, there has been a substantial development of chain stores, department stores, and other large-scale retailing activities, as well as direct selling on the part of manufacturers. This has had its repercussions in the wholesaler's domain as indicated in the following summary statement on the position of the wholesaler in the report of the Royal Commission on Price Spreads, published in 1935.

> One important result of this development of large-scale merchandising has been the virtual disappearance of the wholesale merchants in many lines, and the establishment of direct contacts between manufacturer and retailer. The disappearance of the independent wholesale merchant does not mean that the functions formerly performed by him are rendered unnecessary. To some extent, they are taken over by the retailer, particularly through the warehousing and distributive facilities

[19] Dominion Bureau of Statistics, Ottawa, Canada.

of chain and department stores, but, probably to a much greater extent, the wholesaler has been replaced by the marketing organization of the manufacturer.

Table 19 gives a statistical analysis of the manner in which the products of some of the leading manufacturers of consumers' goods were distributed in 1930. In the food industries, for example, it is shown that "the wholesale merchant still occupies an important place in the distributive system, although direct sales to retailers form a considerable part of the total in some lines. For the most part, such sales represent purchases by large-scale enterprises." In the clothing and furniture industries, the wholesale merchant has practically disappeared and independent, chain, and department stores buy directly from the manufacturer. The report continues:

> In the hardware and electrical industries the wholesaler still handles a substantial proportion of the business, but in the latter industry manufacturers' wholesale branches are almost as important as independent wholesale merchants. The industries producing medicinal and pharmaceutical preparations made a greater proportion of their sales direct to retail establishments than to their own wholesale branches and wholesale merchants combined.[20]

The foregoing analysis is based upon the reports which do not include imports and non-manufactured products, hence the extent of Canadian wholesaling is somewhat underestimated. The Census of 1930 which gives a more complete picture, reported 12,914 wholesale establishments of all types with a total net sales volume of $3,133,733,700 as indicated in Table 20. This figure corresponds to those published by the United States Bureau of the Census which are based upon the middle view of wholesaling as explained in Chapter 2. In the narrow sense of the term, there were in excess of 5,000 *wholesalers proper* in Canada in 1930 with sales in excess of one billion dollars.

Annual estimates of the sales of wholesalers proper have been made each year since 1930 not only for the Dominion but for each of the five provinces and with breakdowns by kinds of business for Canada and for each province.

[20] Report of the Royal Commission on Price Spreads, Ottawa, J. O. Patenaude, Printer to the King's Most Excellent Majesty, 1935, p. 204.

Table 19. Distribution of Sales of Manufacturing Plants in Canada: 1930

Industry	Value of Production 1930	Percentage Distribution of Sales of Firms Reporting Sales to—						
		Manufacturers' Wholesale Branches	Other Wholesalers	Manufacturers' Retail Branches	Other Retailers (a)	Industrial and Other Large Consumers	Household Consumers	Export Sales
	$	%	%	%	%	%	%	%
Biscuits, confectionery, cocoa, etc.	58,059,602	22.4	26.7	6.1	40.9	1.2	1.3	1.4
Bread and other bakery products	73,594,894				[b]29.9		70.1	
Butter and cheese	113,018,789		42.2		[c]26.3	4.4	[d]26.9	.2
Coffee, tea and spices	24,378,447	16 0	14.8	8.1	53.6	6.5	.1	.9
Fish curing and packing	32,973,308	.7	41.3		[e]15 5	.8	.3	41 4
Flour and feed mills	144,855,946	6.6	25 5	1.5	15.7	[f]18.7	[g]5 3	26.7
Fruit and vegetable preparations	31,458,415	5 6	57.8	6.9	26 1	1.3	.1	2.2
Pickles, vinegar and sauces	11,635,337	41.8	14.9		17.6	1.0	.2	24.5
Slaughtering and meat packing	164,029,953	36.6	4.4	3.6	48.8	1.4	.4	4.8
Sugar refineries	42,935,722		79.4		6.9	12.0		1.7
Tobacco, cigars and cigarettes	85,671,786		70.3	.1	29 2	.2	.1	.1
Boots and shoes	40,478,911	.2	25 0	1.5	71.6	.9	.5	.3
Clothing, factory, men's	40,819,423		[h]6.5	15.3	75.0	1.1	2.1	
Clothing, factory, women's	61,815,948	1.1	7.3	4 2	83 0	3 2	1.1	.1
Furnishing goods, men's	25,154,310	1.0	20.6	2.4	73.2	1 8	.8	.2
Hats and caps	14,224,789	4.9	16.4	9.5	64.6	3.5	.6	.5
Hosiery, knitted goods and fabric gloves	54,117,924	2.0	29.1	1.3	60.4	4.5	.9	1.8
Furniture	36,866,195	4.3	6.8	5.1	61.2	15.0	6.9	.7
Electrical apparatus and supplies	104,577,790	29 5	27 6	.3	8 1	31 3	.2	3.0
Hardware and tools	21,474,155	3.4	39.8		[i]24 5	23 7	4	8.2
Paints, pigments and varnishes	23,966,502	8.4	13.0	3.1	34.2	39.6	1 4	.3
Automobiles	101,677,487	4.4	12.1	2.8	57.6	.4	.3	22.4
Medicinal and pharmaceutical preparations	17,768,806	11.5	27.1	5.7	47 0	5.4	1.2	2.1
Soaps and washing compounds	18,167,838	1.8	58.1		27 3	8 5	.5	3.8
Rubber goods, including footwear	73,752,673	23.5	9.5	1.1	21 8	12 2	.3	31.6

[a] Includes department stores and chains.
[b] Includes sales to hotels and other large users.
[c] Includes sales to retail branches.
[d] Includes sales of fluid milk and cream by dairy factories.
[e] Includes sales to retail branches.
[f] Consists chiefly of sales to bakeries.
[g] Includes sales to farmers.
[h] Includes wholesale branches.
[i] Includes sales to retail branches.

(Source: Report of the Royal Commission on Price Spreads. Dominion Bureau of Statistics, Census of Merchandising and Service Establishments. Wholesale Trade in Canada and the Provinces, 1934, published by authority of the Hon. W. D. Euler, M.P., Minister of Trade and Commerce, Ottawa, 1935.)

Types of Wholesale Establishments.—As shown in Table 20, Canada has much the same variety among types of wholesale distributors as are found in the United States. Wholesale merchants or regular wholesalers are the most important single type, followed closely by bulk tank stations. In sales volume, however, wholesale merchants greatly exceeded in importance

TABLE 20. TYPES OF WHOLESALE ESTABLISHMENTS IN CANADA: 1930

Type of Distributor	Number of Establishments	Net Sales (1930)
Total	12,914	$3,133,733,700
Wholesalers proper, total	5,008	1,092,933,700
Wholesale merchants	4,096	900,582,900
All others	912	192,350,800
Other types, total	7,906	2,040,800,000
Agents and brokers	1,745	501,050,500
Bulk tank stations	3,539	178,317,100
Chain store warehouses	67	109,627,100
Cooperative marketing associations	137	200,047,600
Elevators	84	109,704,400
Manufacturers' sales branches	1,505	532,296,200
All other	826	404,438,600

(Source: Canada, Dominion Bureau of Statistics, Census of Merchandising and Service Establishments. "Wholesale Trade in Canada," 1930, published by authority of the Hon. H. H. Stevens, M.P., Minister of Trade and Commerce, Ottawa, 1933.)

the bulk tank stations. In the volume of business, manufacturers' sales branches ranked next to wholesale merchants. Agents and brokers of various sorts were numerous and accounted for a substantial volume of business as did exporters and importers. There were also 137 cooperative marketing associations with sales exceeding $200 million. These cooperatives are similar to those which market agricultural products in the United States, and are not to be confused with consumers' cooperatives such as are found in Great Britain. Of the less important types are the chain store warehouses, the wagon distributors, and the cash-and-carry wholesalers. Thus, while there are differences in the relative importance of the various types of wholesalers between Canada and the United States, the underlying marketing pattern is identical. In fact, there

seems to be a greater degree of similarity between these two countries than there is between Canada and the mother country.

Union of South Africa

In the Union of South Africa we have another of the British Dominions, which illustrates the development of wholesaling in a newer colonial area. In a very illuminating article, Edward B. Lawson, American Trade Commissioner at Johannesburg, points out that while the same general type of sales agencies are available in South Africa as in any other foreign market, such as factory branches, exclusive distributors, wholesalers, export commission firms, and manufacturers' agents, yet they "resemble more nearly the distributive agencies of the United States some twenty-five or thirty years ago." He adds that the distributing machinery "is geared to conditions distinctly South African in character." [21] For example, because of the generally undeveloped state of its industries, most of the manufactured commodities consumed in the country are largely imported. This gives the manufacturers' agents an important position in the wholesale distribution structure. These agents are similar to import agents in the United States. They represent the foreign manufacturer in South Africa. They secure orders from their territory by sending out traveling salesmen or through branch offices in the principal cities, and transmit them to the firms they represent. No stocks are carried and little or no credit risk is undertaken, though credit information is supplied to their principals.

In addition to manufacturers' agents which have become so numerous as to render the business unprofitable for many of them, there are also many branch offices and exclusive distributors. Their use, as Mr. Lawson points out, shows considerable trade variation. Branch houses are frequently maintained by foreign producers of industrial and mechanical equipment which may require technical servicing, and for merchandise which is in good demand but highly competitive. Where sales do not

[21] Edward B. Lawson, "Sales Areas and Distribution Channels in the Union of South Africa," *National Marketing Review*, Vol. I, No. 2, Fall of 1935, p. 125.

justify a branch house, exclusive distributors, an important segment of South African wholesaling, are often utilized.

There appears to have been a post-war trend away from the regular wholesalers who formerly dominated the South African market. While they still maintain a prominent position, their business has been curtailed in recent years by the tendency toward *direct indenting* by the large retailers as well as by the use of manufacturers' agents. In other words, wholesaling has been conditioned to a large extent by the type of retailing which has developed, just as it is in other countries.

Retailing in South Africa is frequently combined with wholesaling, especially in the small towns where the numerous general dealers with varied stocks are the most important sales outlets serving both European and native population. Another factor in the retail trade which has its bearing on the wholesaling structure is the stage of development of the newer types of merchandising such as chain stores. As in the United States, England, and Canada, South Africa has its chain systems and department stores. The latter constitute an important outlet for many types of merchandise, but chain stores have experienced but slow development.

There has been some expansion of cash bazaars on the chain store principle, which sell low-priced merchandise comparable to the five-and-ten cent stores in the United States. As a whole, the wholesaling pattern in South Africa, while conditioned by the growth of the country, shows evidence of the same trend toward the newer types of direct selling, challenging the older system of wholesaling, which have been found in other countries.

Wholesaling in Europe

The problem of wholesaling in most European countries, as in England, differs from that in the United States because of the preponderance of foreign trade. This is due, at least in part, to the relatively small size of most countries. Small countries spell restricted trading areas, shorter hauls for the distribution of merchandise, and smaller volume potentials, which in turn make it desirable to seek markets abroad. The explana-

tion of this lies in the fact that domestic manufacturers, in order to attain the advantages of large-scale production must have access to a relatively large market. If, for example, the population of a country can absorb but five million units of a commodity annually, while economical production requires an annual output of a hundred million units, it is clear that the industry must either sell enough abroad to reduce costs to a competitive position, secure a very high protective tariff to keep out foreign products, or abandon the industry to foreign competitors. As a consequence of this economic condition, and because of the frequent dependence on foreign sources for raw materials and foodstuffs, foreign commerce, both exporting and importing, occupies a much larger share of the wholesaling activity of most European nations than is true of the United States.

Another distinction between European wholesaling and that in America lies in the greater development of consumers' cooperation. This, however, has not created as great a difference between the two distribution structures as might be expected. It has been pointed out that:

> It is one of the minor ironies of economic study that in presenting a picture of distribution outlets as they exist in Europe today it is impossible to separate the privately-owned chains of shops from the consumers' cooperative societies. While these two forms of organization represent widely different, and sometimes sharply conflicting, economic theories, their results in practice, viewed as distributive mechanism, are almost identical.[22]

The same thing is true but in more accentuated form when the United States is considered, namely, that the effect of the chain system in this country upon wholesaling and retailing conditions is very similar to that of the consumers' cooperative movement in the countries of Europe where it has developed.

Quantitative material as a measure of the extent of consumers' cooperatives and chain systems in Europe is very inadequate. There are some data, however, which indicate in a general way the trend of these types of merchandising in the various countries. Cooperatives and private chains are

[22] "Europe—United States of America, Distribution Problems" #5, International Chamber of Commerce, 1931, p. 84.

making definite headway in Belgium, Denmark, Germany, and Holland. Cooperatives have outstripped private chains in Austria, Czechoslovakia, Hungary, Italy, Switzerland, and Sweden. Private chains have made little or no progress in Estonia, Latvia, Finland, Norway, and Poland, whereas cooperatives have shown good progress. Only in France have the private chains shown greater progress than the cooperatives.[23]

Still another factor which has a bearing upon the European situation is the legislative enactments which control and restrict the distributive trades in certain countries. These points are discussed for a few selected countries in the following pages.[24]

Austria[25]

One outstanding feature of the wholesaling structure in Austria is the relatively minor position of wholesale merchants. It is estimated that they handle only about 30% of all goods. The agent group, on the other hand, is apparently quite powerful, doing the bulk of the remainder of the wholesale business of the country. Austrian manufacturers who operate on a fairly large scale utilize the services of special representatives or agents located in the various communities of the country. These agents sell to the retailers in their territories much after the fashion of wholesalers. Wholesale merchants are confined largely to Vienna and the provincial capitals and handle such lines as foodstuffs. They call on the retail trade directly or through agents which they select in sub-districts. Direct selling to consumers by manufacturers is very exceptional, being confined to manufacturers or processors of bread, chocolate and candy, coffee, tea, and other colonial wares, and to a few shoe manufacturers. Most of this direct selling is conducted through manufacturers' retail chain systems.

Imported goods fall into two classes, industrial goods (including raw materials, semi-manufactures and machinery) and consumers' goods. Imports are sold largely through agents who handle some 80% of the total. The remaining 20% is sold

[23] *Ibid.*, p. 85.

[24] Consideration of the Russian wholesaling structure is deferred to Chapter 25, "Wholesaling in a Planned Economy."

[25] Based upon a report by Gardner Richardson, Commercial Attaché, United States Department of Commerce, Vienna, Austria, April, 1936.

by wholesale branch offices maintained in Vienna by the exporters. Most of the industrial imports are sold directly to industrial consumers by the import agents. Consumers' goods are distributed by the importers through retailers with the exception of such items as automobiles, refrigerators, and kitchen and household machinery, which are frequently imported directly by the retailer himself.

Consumers' cooperatives and chain stores have not had a very great development in Austria. The latter have had limited success in the foodstuffs trade and in colonial goods, and to some extent in footwear. These enterprises operate their own wholesale or warehouse departments. In the electrical equipment and photographic supplies business, there has been an organization of more or less independent stores devoted exclusively to the sale of particular commodity brands. For consumers' cooperatives, the movement has been confined largely to certain groups of the population, such as the personnel of large companies. For example, there are the "centralized purchasing organizations of certain cartelized industries or other groups of manufacturers." Farmers' sales cooperatives, on the other hand, have developed as important outlets for the agricultural produce of the country, a field which they share with specialized wholesalers.

In Vienna and in the larger provincial towns the wholesaling of farm products and other foodstuffs is centralized to a large part in the "Grossmarkthalle." The purchasing of foreign farm products is made primarily by grain or cattle wholesalers. Wholesaling of foreign raw materials is done mainly by specialized agents or wholesalers, or by firms which are closely connected with producers in foreign countries, such as the oil companies. Cotton, wool, and other raw materials are purchased directly from foreign producers or merchants through agents.[26]

Czechoslovakia [27]

The following report on the wholesaling structure of Czechoslovakia is so comprehensive and instructive that it is quoted at length.

[26] *Ibid.*

[27] From a report by Dr. A. Broft, assistant to Mr. Sam E. Woods, Commercial Attaché, United States Department of Commerce, Prague, Czechoslovakia, February 29, 1936.

For a number of years after the world war, Czechoslovak manufacturers normally sold their products to wholesale merchants or distributed them through their own commercial travellers to retailers. The latter method was employed particularly by small-scale manufacturers. Sales of domestic merchandise through brokers and agents were effected less frequently although some manufacturers of textiles and leather maintained, and still maintain, representatives in principal cities as their sales agents. As a result, the importance of wholesale merchants in Czechoslovakia is relatively much greater than that of brokers and agents in so far as sales of domestic products are concerned. With a few exceptions in the foodstuffs line, principally smoked meat, ham and sausages, and dairy products, manufacturers did not supply retailers directly. Household consumers usually did not come into direct connection with manufacturers.

In the last ten years, the wholesaling system has been broken down in certain industrial lines, such as shoes, textiles, ready-made clothing, chocolate and confectionery, owing to the fairly extensive development of the chain store method of distribution which is closely connected with efforts to reduce overhead charges and lower selling prices by avoiding the employment of intermediaries.

By and large, domestic manufacturers do not operate wholesale branch offices or warehouses but many important industrial lines, including principally iron and steel, glass, porcelain, mineral oils, building materials, electric machinery, chemicals, pharmaceuticals, paper, lumber and sugar, have established sales cartels and maintain sales offices controlling sales quotas, prices and terms in dealing with wholesalers or large consumers.

Czechoslovak importers of foreign merchandise operate primarily as wholesale establishments and redistribute to retailers, manufacturers and other industrial consumers either direct or through commercial travellers. As a rule they do not sell at retail.

Consumers' cooperatives are an old institution in distributing goods in this country, based on a pre-war Austrian law from the year 1873. According to Czechoslovak official statistics, there were 1,093 consumers' cooperatives in operation at the end of 1934 with slightly more than 1,000,000 members, most of whom are industrial workmen and low-salaried Government employees and smaller numbers of farm hands, small farmers and tradesmen. The consumers' cooperatives operate approximately 3,500 stores in the Czechoslovak Republic and sell foodstuffs and other basic necessities. These consumers' cooperatives in most cases purchase their merchandise from wholesale merchants. Industrial workmen's cooperatives, which form the bulk of consumers' cooperatives in Czechoslovakia, have a central purchasing organization called "Cooperatives' Wholesale Purchasing Company" in Prague. This company does its own wholesaling, maintains large warehouses, imports from foreign countries and also operates a number of factories.

The chain store method of distribution has developed greatly in recent years. The commodities handled by chain stores are principally shoes, hosiery, rubber goods, groceries, smoked meats and sausages, breads and pastry, chocolate and confectionery, ready-made clothing and dairy products. The expansion of certain large manufacturers in the retail field went so far that, at the urgent request of small shopkeepers and artisans, the Czechoslovak Government issued a law effective July 26, 1935, which virtually prohibited the establishment of new branch sales, repair and warehouse units in the confectionery, specialties, textiles, footwear, foodstuffs and groceries fields unless it is ascertained that such expansion will not have an economically detrimental effect on competitive conditions.

Germany [28]

The German marketing system is very similar in many ways to that of America, although there are some marked differences. The similarity lies in such points as the development of direct selling and the newer types of merchandising which are decidedly affecting the position of the regular wholesaler. For example, a report of the German National Committee of the International Chamber of Commerce comments that since 1925 there has been a substantial decline in the number of businesses engaged in the wholesale trade in that country, due to rapid growth of department stores and chains. One point of difference, which is outstanding, is the existence of legislation dealing with marketing problems in Germany, which has no exact counterpart in the United States, and yet which cannot help but have a very pronounced influence upon distribution practices in the former country.[29]

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[28] This section is based largely upon a report by Douglas Miller, Acting Commercial Attaché, U. S. Department of Commerce, Berlin, Germany, Mar., 1936.

[29] During 1934 and 1935 the German government has attempted to bolster up the small independent merchant by imposing legislation curbs on large-scale retailing. In so far as this program is effective it also strengthens the position of the regular wholesaler. The following summary, based upon Mr. Miller's report, shows the nature of the restrictions.

1. Prohibition of new textile mail-order houses and of the expansion of existing houses.
2. Prohibition of certain service departments, such as barber shops, in department stores.
3. Limited price variety chains prohibited from adding new branches.
4. Limitation on number of retail shops in a given neighborhood.
5. Prohibition of manufacturing bread, pastries, sausage, etc., by department stores.
6. Prohibition of restaurants and lunch counters in department stores.
7. Department store taxes have been doubled.
8. Use of premiums by retailers prohibited and discounts from retail price limited to 3%.
9. Clearance sales may not be advertised unless the line of goods, branch or the entire business is to be discontinued.

The wholesaling structure of Germany is also conditioned by the relatively small and compact area of the country, which is well-knit together by excellent rail, water, and truck transportation systems. This compactness may account for the fact that Germany has made little use of agents and brokers, and manufacturers' sales branches. Manufacturers located in Germany have marketed a large proportion of their output through wholesalers in the past, and still rely upon them, although group-buying and the appearance of large-scale retailing in recent years have encouraged more direct selling. Current legislation may, as indicated above, effect some change in this trend. There is also a tendency towards industrial decentralization which brings producers into much closer proximity to consumers, and hence renders specialized wholesaling agencies less essential. The recent development of hand-to-mouth buying has also contributed to this end. Old methods persist, however, and much merchandise is still sold through fairs and exhibitions such as the Leipzig Sample Fair.[30]

As in England and in other European countries there has been a considerable development of consumers' cooperatives in Germany. Cooperative wholesaling activities, however, have not been as well organized as in Great Britain. Some of the buying is done through the regular wholesaler. The cooperative movement shares with the chains and the other large-scale retailing businesses, the current restrictions on trade designed to favor the individual retailer, and hence is declining in relative importance at the present time. The chain store movement in Germany has also been established and in many respects parallels that in the United States. While the existing laws tend to check such large-scale retailing, future changes in political sentiment may remove these artificial obstacles, and the trend towards more chains, department stores, and buying groups may reassert itself.

The wholesaling of farm products, both assembling and distribution, is now concentrated in the *Reichsnaehrstand,* an

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[30] It is claimed that at the Leipzig Trade Fairs over 8,000 manufacturers from 25 countries display their merchandise in the 42 exhibition halls and fair palaces, which are visited by approximately 200,000 buyers from more than 70 different countries. This fair has been one of the world's market places for about 700 years.

official governmental agency which licenses dealers in eggs, fresh meats, potatoes, and similar products. Independent wholesalers occupy an important position in the sale of raw materials, and there are a number of special commodity markets such as the Bremen cotton market, the Frankfort hide auctions and the Hamburg produce exchanges. Producers' marketing cooperatives are not extensively developed.

Poland[31]

The wholesaling structure of Poland offers a considerable contrast to those of the other European countries thus far discussed. This is partly due, no doubt, to its being largely agricultural, and again, to the fact that it has inherited "three more or less disparate commercial systems from Germany, Russia, and Austria" which have never been adequately organized or consolidated. One of the first things to be noted about the Polish wholesaling structure is the minor position of the regular wholesaler. A large part of the trade is handled by brokers and agents, who are firmly established in all parts of Poland, although marketing practice varies among the different industries.

In the heavy industries, such as iron, steel, coal, hardware, and building equipment, the services of wholesalers as well as of agents and brokers are employed, though the latter predominate. Direct sales are frequently made to large-scale retailers, but seldom or never to household consumers. Unlike the heavy industries, producers of textiles and of artificial fertilizer frequently sell directly to both retailers and consumers, and state chemical plants sell freely through all existing channels. The import trade has shifted in recent years from wholesalers to brokers and commission agents who "sell indiscriminately to other distributors, retailers and consumers."

Agricultural commodities, the production of which occupies some 75% of the population of Poland, are either sold locally or shipped to Gdynia or Danzig for export. The peasant

[31] Based upon a report by Clayton Lane, Acting Chief, Foreign Tariffs Division and sometime Commercial Attaché, U. S. Department of Commerce, Warsaw, Poland, Feb., 1936.

wagon is the common mode of transportation for vegetables and dairy products. Roads are very poor or lacking altogether and the rail system is designed for military rather than economic purposes. Apart from government warehouses at Gdynia for cotton, tobacco and fresh fruits, storage facilities are very inadequate.

"Poland is conspicuously a country of small shops and small proprietors. Warsaw has only one department store, and there is no other in all Poland." Chain store systems are entirely absent but there is an old established consumer-cooperative movement which, in 1933, had a membership of 2,648,000. This movement, however, is relatively less extensive in Poland than in other parts of Europe.

The development of specialized wholesaling in Poland has been retarded by lack of capital and by the absence of a commercial middle class. The predominately agrarian character of the economy coupled with the inadequacy of the transportation system has tended to foster more or less self-contained communities dependent on the outside world for relatively few manufactured goods which are purchased largely from small shops or itinerant tradesmen who buy directly from the producer or importer wherever possible. The future of wholesaling in Poland might lie in the direction of an expansion of the regular wholesaler's activities to meet the needs of these small retailers, especially if there continues to be a retarded growth of chains and other large-scale retail establishments.

Switzerland [32]

In the introductory discussion to this section on European marketing structures, it was noted that the small size of most of the countries was an economic factor which tended to differentiate European wholesaling practices from American. This is particularly true of Switzerland. It has been estimated that Swiss manufacturers have to seek foreign outlets for an average of 70% of their output, which together with the necessity

[32] From a memorandum prepared by C. E. Lyon, Chief of the European section of the Bureau of Foreign and Domestic Commerce and formerly Commercial Attaché for the U. S. Department of Commerce at Geneva, Switzerland.

for maintaining foreign sources of supply of raw materials, affects all of their distribution policies.

It is customary for Swiss manufacturers to operate wholesale departments to handle their sales in the domestic market. Sales are made to retailers, there being little or no direct selling to consumers. The very small sales territory precludes the necessity for branch houses. Imported goods, particularly specialties, are handled largely by exclusive agents who sell to the retail trade. Industrial goods, both raw materials and machinery and other products of the heavy industries, are imported to a large extent by joint purchasing associations. Foreign houses selling to Switzerland have in the past relied upon the warehouse provisions of the neighboring states of Germany, France, and Italy which are close enough to cover the Swiss market. Restrictions on imports, such as the quota system, have stimulated the growth of assembly plants within Switzerland and encouraged mergers with domestic producers.

Agricultural products are marketed through the *Central* which is the local farmers' market within each rural district. The *Central,* together with semi-weekly open markets, handles a large percentage of the agricultural produce of the country. Grain marketing is in the hands of the government which strictly regulates the trade in the interests of protection of the community against war or other causes of grain shortage.

Consumer cooperation is a very important factor in the Swiss marketing structure. It is pointed out by Mr. Lyon that:

> Altogether, there are 750 separate cooperative societies in Switzerland. The Union of Swiss Cooperatives in Basel, acting as purchaser for its member cooperatives, in 1932 delivered to these members goods valued at over $32,000,000 (about $8 per capita of population), about one-half of which represented food products. The development of chain stores in Switzerland has been restricted because of the high development of the cooperative principle and because of the opposition of retailers. Moreover, the cash-and-carry principle is already so well established by retailers that it cannot serve as a distinctive principle of chains. Nevertheless, there are several rather important chain organizations. Perhaps the most significant illustration of the status of Swiss chains is the fact that recently a chain of meat and fruit stores, with about 100 branches, was taken over by the cooperatives.

Other European Countries

Very little information is available on other European countries. The cooperative movement seems to have a particularly prominent position in the Scandinavian countries, although in actual sales their activities do not bulk very large. Table 21 shows the purchases made by the Scandinavian and Finnish cooperatives through their joint purchasing organization in Copenhagen for 1934, which, when compared with the population figures, gives some idea of the development of the movement in the several countries. It also reveals how various cooperative organizations are performing the wholesaling functions jointly.

TABLE 21. PURCHASES BY SCANDINAVIAN AND FINNISH COOPERATIVES THROUGH THEIR JOINT PURCHASING ORGANIZATION (NORDISK ANDELSFORBUND) IN COPENHAGEN: 1934[a]

Cooperatives	Purchases in Crowns (Danish = 22c)	Population
Finnish	8,263,000	3,739,000[b]
Norwegian	1,757,000	2,871,000
Swedish	23,386,000	6,233,000
Danish	7,924,000	3,656,000

[a] "Andelsbladet," Copenhagen, Feb. 7, 1936. [b] 1933.

In Sweden, the Scandinavian country in which consumers' cooperatives appear to have had the greatest development, it is said that consumers' societies do about 10% of the total Swedish retail trade and approximately 15% of the foods and provisions retailing. Although a relatively small part of the retail business is transacted in cooperative stores, reports are that the cooperative movement has had a salutary influence upon Swedish marketing conditions. Productive activities of the cooperatives have been limited, but there have been incursions into the flour milling business, and into the manufacture of such articles as

shoes, electric bulbs, rubber supplies, margarine, and superphosphates.

Fragmentary data on France, Spain, Italy, and other European states, while indicating individual marketing peculiarities, do not show any very radical basic departure from the pattern found in the countries herein examined.

Asia

It is difficult to gather adequate information on the wholesaling structure of Asia. The student of marketing should bear in mind that such countries as India and China have very ancient civilizations which have evolved their own methods of distribution. Modern western sales methods have made little headway except in the European quarters or among the white populations of these areas. Markets which were established centuries ago still dominate the distribution structure. It is recorded in Chinese annals, for example, that an early emperor, Shen Nung, took cognizance of the need of markets for the exchange of commodities and took steps to establish them as early as the third millenium B. C. Many of the existing trading centers in China today are probably these same early markets, with age-old methods dating back to the dim past of Chinese history still in use.[33] In the coastal cities, however, and wherever large urban communities have developed, retail and wholesale trading have been organized along modern lines, especially for the purchase and sale of goods which enter into foreign trade.

No quantitative data as to the extent and volume of wholesaling are available, and reliance must be placed upon observations and estimates of those who are familiar with conditions in the various countries. In China,[34] for example, it is noted, that among the larger domestic or local manufacturers, the wholesale merchant is used as a sales outlet, together with some direct sales to retailers; while the small-scale producer is apt to sell

[33] An article dealing with this subject written in Chinese, entitled, "The Development of Merchant Activities during the Warring Kingdoms" (481-255 B. C.) is to be found in the magazine *Shih-Huo* (Aug. 1, 1935), an Economic Journal published by the New Life Book Company, Shanghai, China (pp. 237-39).

[34] This material was largely supplied by Julian Arnold, the Commercial Attaché in Shanghai, China.

directly to the ultimate consumer.[35] Agents and brokers are not a factor of great importance in the distribution of domestic products, but for imported merchandise they play an important part, since foreign manufacturers who sell in China make use of them almost entirely in one form or another. Even wholesale merchants, known as dealers, are utilized on an agency basis by the foreign producer and his branch offices. Another type of wholesaler found in the seaport trade is the importer who often operates branch offices with large stocks of merchandise.

In the chain store field there has been but little development, although the movement is now getting started. Department stores are well established, and many are large enough to engage in direct importing. In agricultural marketing the prevailing method for assembling and distributing farm products and raw materials is through the operations of middlemen. At the present time there is little or no cooperative marketing of agricultural products such as prevails in the United States, but a movement to develop cooperation is being pushed and training courses in cooperative marketing are being established.

Information regarding the distribution structure in India is very limited.[36] It appears that the wholesaling pattern is largely conditioned by the retailing system which is divided between the department stores and specialty shops of the large cities which cater to the European and well-to-do Indian population, and the bazaars, which are small shops normally operated by and for natives. There has also been some development of mail order selling, especially by the large department stores. The chief wholesale dealers of the country are thus the importers of British, American, and other foreign merchandise, and the native wholesaler who supplies the bazaar trade. Some of the department stores and specialty shops, however, are in a

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[35] This seeming conflict with the general use of wholesalers by small-scale manufacturers in the United States calls for a word of explanation. A small-scale producer in Asia and in many other parts of the world may be little more than a handicraft producer, similar to shoemakers in the United States, while in the latter country so-called small-scale producers frequently operate on a comparatively substantial scale when contrasted with foreign producers.

[36] Some information on India, in so far as it provides an outlet for American merchandise, is available in a Department of Commerce report. Wilson C. Flake, Assistant Trade Commissioner, Calcutta, India. "Channels of Distribution of American Merchandise in India" (1933). Trade Information Bulletin, No. 817.

position to engage in direct importing, and thus perform their own wholesaling operations, at least to that extent.

Latin America: Argentina

In many ways the marketing system of the Republic of Argentina is similar to others previously examined. Foreign trade, for example, plays a very dominant rôle, just as it does in Europe; but, on the other hand, cooperative marketing appears to have had little development, no more than it has had in North America.[37] Various points of similarity will be noted in the following discussion.[38]

Wholesale merchants in all probability handle a greater proportion of many lines than any other class. This is notably true in such lines as foodstuffs and drugs. Due to the large number of small shops, many with practically no credit rating, the local manufacturers generally prefer to sell through wholesalers. The larger retailers, among which are a few important chain systems, however, enjoy the rating of wholesalers, and are dealt with directly. Direct selling to retailers by local manufacturers appears to be on the increase in Argentina. Some large manufacturers operate their own retail stores. Selling directly to householders, however, is done only on a very small scale. The principal reason, other than the fact that most business is carried on through regular wholesale and retail channels, is that practically every home has a servant and it is very difficult for a salesman to obtain an interview with the home owner.

Brokers and agents called "corredores" play an important part in the distribution of merchandise in Argentina, not only for that manufactured locally but also that imported from overseas marts. A local manufacturer may have a particularly efficient manufacturing unit but lack the facilities of a good sales organization and rather than try to build up a sales organization he depends on these firms. The value of commission firms was brought out particularly well in recent years when rising import duties and depreciated currency halted the easy flow of imported products. The foreign producers of imported products, the sale of which had been stopped, then sent representatives to Buenos Aires not only to seek local custom manufacturers for their products, but also to seek commission agents to take care of the distribution of

[37] This may be characteristic of most Latin American countries. In Mexico, however, legislation has been enacted to encourage the cooperative movement. It has had its effect upon distribution practices, even as governmental action has in other places in the world. It is reported that since the passage of the "Law of Cooperative Societies," in 1933, over a thousand cooperatives, both consumers' and producers' types, have been authorized, with the movement going steadily forward.

[38] This material has been taken from a report drafted by Jule B. Smith, Assistant Trade Commissioner, from Buenos Aires.

their locally-made product to their former customers. Usually the entire trade was then left under the supervision of their representative.

As might easily be gathered from the above discussion, foreign trade plays a very important part in the life of Argentina; consequently, practically every type of importer is to be found there. Probably the most important class is that which distributes directly to retailers. Then there are importers who deal only with wholesale firms. Again, many of the large retail firms import directly from the foreign manufacturer, buying either directly from the manufacturer or from the manufacturers' resident representative or agent. Some large importers sell directly to consumers. For example, American made electrical household equipment can be purchased from the branches of American firms who thus combine the functions of importing, wholesaling and retailing. Some of the larger importers of Buenos Aires maintain branch houses or factory representatives throughout the Republic.

Chain stores and consumers' cooperatives have not developed to any great extent in Argentina. There are a few important chains of retail stores. Among these is that of a large British-owned department store chain with 19 or 20 stores in the more important cities of Argentina. Another is a chain of retail grocery stores with some 40 stores in Buenos Aires owned locally. There is also a small chain of "5 & 10" stores owned by American and local capital. The larger chains operate warehouses.

Cooperative marketing of agricultural products has had little development in Argentina. Various channels are used to market farm products. In the meat industry, which is very important for the country, private packers predominate. Most of the largest meat packing firms of the world have immense plants in Argentina. These buy directly from the ranchers, as well as from commission firms and at auction. A large proportion of the grain of the country is handled in sacks, although the handling of grain in bulk (in elevators) is on the increase. There are a few privately operated country elevators, and one chain of cooperatively owned elevators. The Argentine Government is preparing to build 14 terminal and 30 country elevators. Most of the large port elevators are now owned either by the railways or by the large grain exporters. The latter are the main purchasers of grain, either through company-owned grain dealers or through independent operators. In the wool trade large wool markets handle the crop. Warehouses are maintained by these markets, and by the important wool exporters. There are also numerous privately owned and operated wool warehouses.

Conclusion.—The foregoing analysis of foreign wholesaling techniques shows the widespread prevalence of wholesaling activities and indicates that the variation in performance of

marketing functions is conditioned by economic, geographic, historic, and political factors. It is noteworthy that each country in working out its own wholesaling pattern to meet its peculiar requirements, has utilized well-known types of wholesalers and methods of wholesaling. Of all the countries studied, Canada comes closest to the United States in its wholesaling mechanism. England and most other European countries differ quite radically from the United States in the emphasis placed upon consumers' cooperatives. Most foreign countries have much smaller territories than the United States and are much more dependent upon foreign trade, both of which factors have left their mark upon wholesaling abroad. Finally, legislative restrictions on marketing practices have been imposed in a number of countries which have no parallel in the United States. A close comparison of the similarities and differences between the United States and other countries should provide the student with a more comprehensive understanding of the nature and functioning of our own wholesaling structure.

PART III—OPERATION AND MANAGEMENT OF A WHOLESALE BUSINESS

CHAPTER 16

LOCATION, LAYOUT, AND ORGANIZATION

The preceding chapters have dealt with the nature of wholesaling, its evolution, structure, and functions. From the discussion of the various wholesaling systems now existing in this and other countries it is seen that this phase of our business mechanism occupies an important and, in many cases, a strategic, position in the economic order of the modern world. It is equally apparent that the true basis for this position must necessarily lie in the efficiency with which the wholesaling functions are performed. To focus attention on the numerous and complex principles, practices, and policies which represent what may be termed the fundamentals in the organization, operation, and management of a modern and successful wholesale business is the primary aim of this part of the book. It is hoped that through this presentation the relatively less efficient concerns engaged in wholesaling may learn to simulate the principles adopted by the more progressive houses which form the basis of this discussion. Through the diffusion of knowledge on sound fundamentals it may be possible to reduce some of the wastes attendant upon the performance of the wholesaling task. The results may redound not only to the benefit of the wholesaler through more liberal profits, to the retailer through more efficient service, to the manufacturer through wider and more effective channels for the movement of his goods, but also to the consuming public in the form of lower prices.[1]

[1] For a more detailed treatment of the fundamental principles and practices which make for the efficient operation of a wholesale house, though not for up-to-date factual material, see T. N. Beckman, "Wholesaling," Chs. VI through XXXIII, New York, The Ronald Press Co., 1926.

Choosing a Wholesale Business.—Not unlike other phases of our economic system, wholesaling has been for some years in a state of flux. Partly because of its dynamic nature, some concerns, voluntarily or involuntarily, have ceased business operations; others have attempted to change from one line of wholesaling to another, and new firms have sought to enter the wholesaling field. For the latter two types of concerns, a problem of major significance is the choice of the line of merchandise or kind of business upon which to embark.

The relative opportunity for the profitable employment of capital and managerial ability differs considerably with each kind of business. Some lines of trade, as a class, are known to offer very little opportunity, since the industries producing such goods are definitely on the decline. Lack of opportunity for the wholesaler also prevails in such lines as women's wear where the practice has become one of direct buying by the large department and specialty stores. Again, certain lines of trade such as the food industries, including confectionery and the tobacco business, are more or less in a static condition. In so far as consumption and production potentialities are constant, the future of wholesaling is limited in those fields. There are also industries which are overexpanded, as illustrated by beer, wine, and spiritous liquor, although a few years ago, before the saturation point had been reached, these industries appeared to offer an exceedingly bright future. Other lines of trade may be temporarily in the doldrums, as was the production and distribution of radio sets from 1929 through 1934. On the other hand, there are always a number of kinds of business that offer a real future for the wholesaler who wishes to pioneer and cast his lot with a *coming* industry. These are now exemplified by air conditioning, the oil burner business, and a number of other lines of trade that owe their existence to the development of electrical and automotive power. There may also be excellent opportunities in old and well-established fields of wholesale enterprise due to a temporary scarcity of such concerns in a given community or in a given section of the United States.

A second matter which must be decided is the extent of the line of merchandise to be carried. Whether to handle, for ex-

ample, a complete line of dry goods, or to specialize in one or more commodity groups such as knit goods, underwear, hosiery, notions, or ready-to-wear, is a decision of vital importance. The advantages of both kinds of wholesaling, general line versus specialty, have already been discussed at length in Chapter 11, together with a similar discussion of the extent of the sales territory to be covered. Definite decisions on these three points; namely, the kind of business, completeness of line, and extent of the market to be cultivated, should be made only after careful deliberation, for upon them depends in large measure the selection of a satisfactory location for the business and the determination of many of the management policies.

Locating a Wholesale House

Both to the newcomer and to the established wholesale concern the choice of a suitable location for the business is of utmost importance. A good location may be the firm's best asset, while a poor one may sometimes lead to failure. In locating a wholesale house, especially when it is being newly established, three distinct problems need be considered. The first relates to the choice of a community which, together with the territory that is geographically tributary to it and which it thus dominates, will offer superior advantages for the kind of business contemplated. The second problem is whether to locate in or near the wholesale district in the chosen community, and the third, the selection of a specific site.

Selection of a Community.—For certain kinds of business, some wholesale centers are more advantageous than others. An examination of the distribution of wholesale houses by cities, based upon data gathered by the United States Bureau of the Census, by other governmental agencies, by various trade associations, by publishers of periodicals, and by chambers of commerce, should at once reveal the communities in which given kinds of wholesaling have developed, and hence are presumably suited to those trades.[2] The selection of a distributing center

[2] Illustrative of these studies are the "Atlas of Wholesale Grocery Territories," Bureau of Foreign and Domestic Commerce; "Distribution Through Drug Channels in the 84 Wholesale Trading Areas," The National Wholesale Druggists' Association, 1935; a

depends to a considerable extent upon the size of the territory to be covered. When a concern wishes to operate nationally, New York, Chicago, or St. Louis will probably be chosen inasmuch as these cities dominate the larger market areas, although for a certain line of merchandise Detroit or Cleveland may be equally desirable. For those wishing sectional operation, a much larger number of communities are available from which to choose. In making the choice special attention must be given to competition from other wholesale centers, time required for delivery to distant markets, freight rates to such markets, and sales expense in cultivating customers located at a distance. While a city like Denver dominates a very large area in the distribution of goods at wholesale, there being no important wholesale centers in close proximity, a city like Columbus, Ohio, is destined to remain very largely a local distributing center because it is surrounded on all sides by as large, or larger, cities including Pittsburgh, Buffalo, Cleveland, Detroit, Chicago, Toledo, Indianapolis and Cincinnati.

Regardless of the kind of business contemplated or the territory to be covered, there are certain criteria affecting the choice of a distributing center that are of general application. One of these factors is the importance and character of its principal industries. Some cities are predominantly one-industry communities, while others enjoy greater diversification. The latter type of community is, on the whole, more desirable for wholesaling as the business is subject to less extreme fluctuations. Some industries are intermittent, while others operate without interruption. Conditions such as these affect the earning power and consumption capacity of the population, which in turn supports or fails to support the wholesale business of the community.

The availability of transportation facilities for assembling the goods from sources of supply and for shipment of orders to customers is another important factor. In a survey of trans-

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map of "Jobbing Markets for Dry Goods and Allied Lines" prepared by the *Dry Goods Reporter* and the *Drygoodsman* of Chicago and St. Louis, respectively; "Wholesale Opportunities in the Tulsa Market Area," published by the Tulsa Chamber of Commerce, 1932; and E. Peterson, "A Market Analysis of the Denver Wholesale Trade Territory," University of Colorado, 1935.

portation service attention must be given not only to railroads, but to highways, motor truck carriers, water transportation, interurbans, and even air service. Competition from wholesalers in like businesses already located in the community and in nearby cities is a third factor. The nature of competition from nearby communities and the means of transportation available, including cost of the service, probably constitute the two most important elements in delimiting wholesale trading areas. Among the other factors defining the boundaries of a wholesale market are the size of the house, its policy as to trade selection, intensity of market cultivation, employment of specialty salesmen, use of drop shipments, the degree of style or the uniqueness of the merchandise handled, and the cost of serving customers located at a distance.

In choosing a distributing center the labor supply and the possibility of securing an adequate number of good salesmen are important items. Likewise, the availability of adequate banking facilities and the attitude of the bankers toward new enterprises should be investigated. In some cities all banks may be controlled by one or two families, hence the borrower may be hindered by a monopolistic condition. There is also the matter of local taxes to be considered. Sometimes there are special offers made by local chambers of commerce interested in attracting new concerns, which may grant certain exemptions from local taxes over a period of time, or else a land concession, or even outright financial contributions. Information concerning these factors may usually be obtained from the local chambers of commerce, banks, trade associations, publishers of market analyses of different territories, certain governmental agencies, the leading newspapers of the respective trade areas, or through personal investigations. In any event, a thorough analysis of these market factors should be made by a competent authority before a final decision is reached.

Locating with Reference to the Wholesale District.—In every city there are one or more sections in which wholesale houses cluster together. These districts, as a rule, remain fixed longer than retail business centers, although a certain amount

of shifting takes place in all growing cities, and occasionally whole districts may be relocated. One of the most important advantages in grouping wholesale activity in a given line of business is convenience to customers. Both city and out-of-town buyers can visit several competing houses within a short period of time and obtain the advantage of comparing the merchandise as to style, quality, price, and other factors. If the wholesaler is operating in such lines as dry goods, clothing, millinery, or leather goods, it is highly important for him to be located in a central wholesale district which will attract trade from such buyers. In other lines of trade such as groceries, the matter of concentrated location is of little import, from this standpoint, because the goods are sold largely through wholesalers' salesmen, or ordered by mail or telephone. The close proximity to competing houses which enables a wholesaler to pick up *shorts,* i.e., goods needed to fill an order of which the seller is temporarily out, is another factor to be considered. This is particularly desirable for rush orders, or when the number of items handled is so large, as in the drug business, that no wholesale concern can afford to maintain stocks of all items required at all times. Finally, such a location is usually convenient to traveling representatives of mills, factors, selling agents, and other sources of supply. In a sellers' market, as in periods of rising prices, wholesale houses which are not located along the beaten tracks of vendors' salesmen are more apt to be overlooked, particularly when the concern operates on a small scale.

Selection of a Specific Site.—As implied in the paragraphs immediately preceding, a city's structure is dynamic and subject to continual change. This adds to the difficulty of selecting a location. As soon as available land becomes fully utilized, the structure of the city reaches a certain degree of permanency and stability. Wholesale districts then become definitely established, but when maturity is attained in the arrangement of land uses, shifts begin to appear and the problem of site selection becomes complicated. For a particular site to be suitable to the needs of a given wholesale house, special attention must be given to the following factors:

1. Availability of Railway Track Service.—For the handling of groceries, hardware, drugs, electrical goods, and many other lines of trade, track service is essential to economical operation. Consequently, such firms locate their places of business, whenever possible, on sites that permit the construction of railroad spurs next to the buildings from which cars may be loaded and unloaded with a minimum of labor, time, and expense. Some houses have sufficient space to accommodate five or more cars at a time, which can be switched as desired. Goods may sometimes be unloaded directly from the car into trucks for local delivery instead of handling them through the warehouse. Track service also enables wholesalers more conveniently to combine purchases, and thus "pool" cars in order to obtain lower freight rates.

2. Proximity to Railroad Stations.—In the absence of track service, it is advisable to locate within a short distance of the freight depots. Even when track service is available, this kind of a location facilitates the handling of less-than-carload lot shipments, both incoming and outgoing. It thus prevents long distance hauling to and from the cars, and, since passenger stations are also nearby, buyers from out-of-town are attracted to the house. If the community is connected by water routes with important centers of supply, it may be advantageous to locate conveniently near the waterfront, particularly when the goods are bulky.

3. Proximity to Local Sources of Supply.—If local sources of supply are significant, it may be advisable, other things being equal, to locate near them. This simplifies the assembly function, but may be offset by higher delivery costs to customers.

4. Accessibility to the Trade.—Ease of reaching city trade with deliveries and of being reached by prospective buyers is desirable. A location that is thus accessible reduces delivery expense and serves to attract trade in lines where it is customary for buyers to visit the wholesale house frequently. With the growing use of motor vehicles, accessibility to thoroughfares

and parking facilities rather than to street car service or close proximity to retail stores is advisable.

5. Availability of Public Storage Facilities.—In some lines of business it is relatively important to locate near cold and other storage facilities, where commodities can be kept either regularly or during periods of surplus stock accumulations.

6. Rent-Paying Capacity.—Sites selected by wholesalers usually occupy a middle position between those used for manufacturing and other industrial purposes, and those utilized for retailing and other commercial purposes. Consequently, there may be competition on the one hand from manufacturers for the cheapest sites in the wholesaler-manufacturer zone, and from retailers on the other hand for the more costly sites in the retailer-wholesaler zone. The exact kind of site to choose from the standpoint of rental value depends naturally upon the type of wholesaling, the unit value of the goods handled, the amount of warehouse space needed, the requirements for display and for other sales promotion work. Such wholesale businesses as jewelry, optical goods, radios, and electrical refrigerators, may justify rather expensive sites, as contrasted with wholesalers engaged in the hardware, grocery, or drug business. The rent-paying capacities of different kinds of wholesaling vary considerably and can be arranged in more or less of a hierarchy based upon the factors enumerated. Just how much rent one can afford to pay can be approximately determined from available studies for each kind of business showing the rental cost either as a percentage of net sales or as an amount per square foot. Individual rents that are higher than these norms may handicap the wholesaler under certain circumstances by causing higher costs of doing business.

7. Suitability of the Building.—Frequently the site selected is already occupied and attention must be given to the suitability of the structure if the location is to be put to the most effective use. Irrespective of whether a new building is erected on the site, an old plant remodeled, or the existing struc-

ture is to be used without substantial alteration, consideration must be given to at least four points; namely, its construction, equipment, fixtures, and comfort. On the score of construction questions must be raised as to rental cost or its equivalent in interest on the investment, taxes, depreciation and insurance; fire hazards; zoning or other restrictions on the property; suitability of the dimensions for the storage of the goods to be handled; advertising value of the façade; and the like. For a well-ordered house, the equipment should include such items as elevators, escalators, gravity conveyors, inclined lifts, spiral chutes, telephones, and possibly also pneumatic tube systems and other labor-saving devices. In addition, adequate provision for heating, water supply, fire sprinklers, and extinguishers should be included. Whether the fixtures are suitable and harmonize with the kind of merchandise to be stored and displayed is of significance, as is the comfort of customers and employees which results from the heating, lighting, ventilation, and plumbing systems in use. All of these must be given consideration if a wholesaler is to capitalize on the favorable aspects of his location and overcome the unfavorable features connected with it.

Layout and Departmentization

Importance and Advantages of Scientific Layout.—Next to the importance of locating the plant is the problem of making adequate provisions for placing the merchandise within the plant. A scientific layout consists of such an arrangement and grouping of the merchandise that items can be located without delay, orders can be assembled and filled rapidly, work in the warehouse can be handled by few men, and physical inventories can be taken with little effort. Items should be classified logically and kept in close proximity to each other with those most frequently needed located in the more accessible places. Stock should be kept clean and in good appearance.

In order to determine how much space, on what floor, and in what particular position on a given floor the merchandise of a certain department should be placed, several points must be taken into account. The physical dimensions, such as width, height, and depth, of the various floors of the building are a pri-

mary consideration. Bulky and heavy commodities are generally located on the first or lower floors, unless higher ceilings on upper floors are more suitable for such merchandise. Since accessibility of stocks for order-filling purposes is very important, broken package rooms, when such are maintained, should be located within easy reach of the shipping department. In rented buildings the available fixtures on the various floors almost automatically determine the location of certain departments. Furthermore, certain lines of merchandise have a natural relation to others. This relationship may be obvious or discovered through diligent study. Good practice calls for the location of the coffee department near the tea department; cereals next to canned goods; silks close to dress goods; hosiery next to underwear, gloves, and furnishings; cigars with candy; and the silverware department adjacent to gifts and novelties. For the sake of appearance, it is customary to put certain lines of merchandise on the first floor, rather than on an upper floor where they may really belong, because of the pleasing atmosphere they create. This has a favorable influence upon customers who visit the house, and upon employees as well. A good appearing stock also conveys a favorable impression to fire insurance inspectors.

Departmentization.—A primary prerequisite to a satisfactory layout which will accomplish the ends outlined above, consists in a proper classification of merchandise and its division into departments. This process requires a segregation of the entire stock of goods into a number of groups or classes. While no rules can be laid down for rigid and universal application in classifying the stock of a wholesale firm into departments, there are nevertheless certain factors that usually govern the determination as to what items should be placed in a given classification. Probably the most important of them is the nature of the goods. The items of merchandise in each department should be of an allied and supplementary character. Thus, the rug department of a wholesale dry goods house may contain rugs, linoleums, lace curtains, lace nets, scrims, marquisettes, cocoa and rubber mats, upholstery goods, shades, brass goods,

curtain poles, cretonnes, printed draperies, and carpet sweepers. Here is a logical grouping of goods that are allied in use and in purchase by both retailers and consumers. For the same reason coffees and teas form a logical combination, although they are frequently combined with spices because they may be purchased by the same buyer, and with peanuts which can be roasted in the coffee-roasting equipment.

A further basis for determining whether a certain group of merchandise should be placed in a separate department is the importance of the line from the standpoint of volume, even though such a line of merchandise may be relatively unprofitable, as is sugar in the grocery trade. Another factor is the profitableness of the items carried. If an item or line of goods bears a wide margin and sales are sufficiently substantial, such goods may be singled out and placed in a separate department for special attention and aggressive sales promotion. Again, the division of merchandise into departments may be determined by the personnel of the organization. Canned goods and cereals may be grouped together merely because one of the buyers happens to be familiar with both lines, while in another firm they are not combined, but each put under the jurisdiction of separate buyers. That this is true is apparent from a study of 69 wholesale dry goods houses which had a total of 307 merchandise departments and 231 buyers. The study showed that in most houses one buyer purchased goods for a single department.[3] This need not, however, be a basic factor in departmentization, for there is no reason why a single buyer should not purchase goods for two or more departments. This is illustrated by the practice of a well-known wholesale grocer in which one buyer purchases goods for five merchandise departments, some of which are not closely related from the standpoint of sources of supply or use. These departments are: coffee and coffee substitutes; tea; baking powder, baking soda, cocoa, cakes, crackers, gelatin, and the like; paper and paper products; and soaps and cleansers. Finally, the amount and kind of storage space may influence the grouping together of certain

[3] E. F. Gerish, "Distribution of Dry Goods in the Gulf Southwest," Domestic Commerce Series—No. 43, p. 32, Washington, D. C., U. S. Government Printing Office, 1931.

types of merchandise. Goods of similar bulk and other physical characteristics, other things being equal, are more likely to be placed together than items that are dissimilar in these qualities.

Benefits of Departmentization.—Progressive wholesalers have long recognized the necessity for departmentizing their merchandise, but many of them, especially the smaller concerns or those that have grown rapidly from a humble beginning, have as yet failed to emulate their larger rivals in this direction. One of the primary objectives of departmentization is that it permits the exercise of effective control of merchandise inventories, purchases, and sales. It correlates these merchandising activities through the facilities which it affords for frequent inventories, so that purchases may be gauged by expected sales on the one hand and existing stock on the other. It also enables the management to locate slow moving items and to allocate responsibility for stock accumulation to certain departments. It thus serves as a rough index of the degree of success with which each department is managed, and affords a basis for planning operations to rehabilitate the backward departments. At the same time, departmentization points to the profitable departments in which purchases, inventories, and sales are correlated to produce an optimum turnover in stock and a satisfactory gross margin of profit. When operating expenses, properly allocated to each department, are deducted from its gross margin, the net profits of each department can be definitely ascertained.

Departmentizing the merchandise often permits greater specialization in buying and thereby secures advantages which come from a more intimate knowledge of merchandise, its sources of supply, price movements, and conditions of demand. Another advantage inherent in departmentization is that it tends to fix responsibility for the operations of each merchandise department upon its manager. Finally, it provides a basis for comparison of departments among themselves and with similar departments of other wholesalers engaged in the same business. Departmentization may thus help to stop expensive leaks,

speed up the rate of stock turnover where it is sluggish, enforce better merchandising practices, and prevent the aggressive selling of unprofitable items.

Number of Departments.—In any attempt to departmentize the merchandise of a wholesale firm, the problem of how many departments to create comes to the forefront. To answer such a question categorically is impossible. Among the factors influencing such a decision are the size of the house, diversification of the merchandise, profitableness of certain lines, degree of sales effort required on some items, and the relative importance of the different lines handled. When the house operates on a small scale, the goods are not highly diversified, all items bear about the same margin of profit, and approximately the same sales effort is required in selling the goods, few departments will be established, and vice versa. A small wholesale grocery firm may have but seven or eight departments consisting of canned foods, farinaceous goods, bakery products, confectionery, tobacco, miscellaneous edibles, and miscellaneous non-edibles. A large concern in the same line of business may have 30 departments or more, including sugar; coffee and substitutes; tea; extracts and spices; canned fish and oriental products; manufactured canned food; canned milk; confectionery; dried fruits and nuts; farinaceous goods bearing manufacturers' labels; farinaceous goods under private brand; condiments under manufacturers' labels; condiments under private brand; syrups and molasses; preserves, jams and jellies; bulk fish, salt, cheese, smoked meats, lard and cooking fats; baking powder, soda, yeast, etc.; beverages and fountain supplies other than private brands; beverages and fountain supplies bearing manufacturers' labels; cigars and smokers' sundries; cigarettes, tobacco and snuff; paper and paper products, soaps, and cleansers; bakers' supplies, soda fountains, etc.; store fixtures, restaurant equipment, and electrical and auto supplies; notions, stationery and toys; and miscellaneous non-edibles.

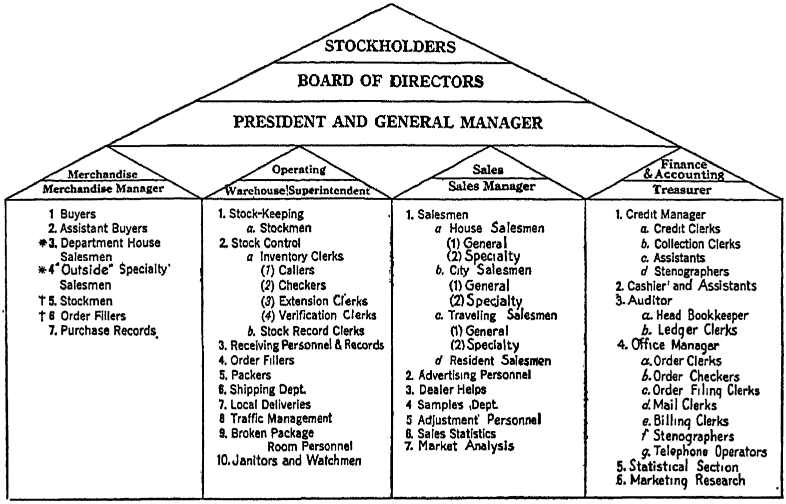
Even two houses doing about the same volume of business annually, and operating in the same trade, may have a different number of departments, depending upon whether they both

handle private branded merchandise, whether each has taken on side-lines, and upon the special requirements of the territories which they serve. The number of departments into which the thousands of items handled by wholesalers are classified may vary from two or three to as many as 70 or 80 for some of the large houses with national coverage. In each firm a special study should be made by a competent technician to determine the optimum number of departments from which the maximum benefits may be secured.

The Organization of a Wholesale Establishment

So long as a wholesale business is operated on a small scale, either as a single proprietorship or as a partnership, there is little need for specialization and differentiation in functions. As the business grows and activity reaches beyond the periphery of direct observation, the work is usually subdivided into unspecialized departments, the division of responsibility being made according to individuals rather than on the basis of functions. Final authority still vests in the head of the enterprise, whose organization assumes a military aspect. It is this kind of development that is still largely responsible for the illogical allocation of duties in many wholesale places of business. However, in the majority of wholesale houses of medium or large size, a departmental organization plan on a functional basis has been substituted for the personal or military type of organization. Its purpose is to segregate the various divisions of the enterprise according to the type of work and line of merchandise, tending toward decentralization, each department forming a self-governing unit, subject only to the general supervision of the management and responsible for the execution of the major policies of the houses. It is the function of good organization in a wholesale house as elsewhere to secure the right man for the right place; to provide for adequate direction, supervision, and control; to delegate and coordinate authority and responsibility; to furnish incentives which will encourage efficiency in the performance of assigned tasks; and to functionalize the business in a manner that will prove most productive to the enterprise as a whole.

General Form of Organization.—Although standardization in the forms of organization is conspicuously lacking in the wholesaling field, in every modern wholesale establishment at least four major functional divisions may be discernible, consisting of *merchandise, operating, sales,* and *finance and accounting*. Each of these main divisions has a planning head, who may be assisted by one or more responsible officials. For a general outline of these four principal divisions of a wholesale enterprise and the various department heads, salesmen, clerks, accountants or bookkeepers, stenographers, stockmen, order fillers, and other employees and types of work, see Figure 6.



*Peculiar to dry goods and similar trades.
† This arrangement obtains principally when receiving and stockkeeping are decentralized.

Figure 6. Principal Divisions of a Wholesaling Organization

The Merchandise Division.—Since buying is one of the most essential functions of wholesaling, the merchandise division is of utmost importance, except for those relatively small houses that sell principally on an exclusive agency basis the goods of a single manufacturer or of a few producers. Ordinarily, the merchandise division is in charge of the merchandise manager who is very often also the general manager of the firm. It is his duty to plan purchases and to supervise the activities of

all buyers and merchandise department heads together with their personnel. In conference with the buyers he decides on the appropriations for buying the different lines of goods during the ensuing season. He constantly keeps in touch with external conditions of supply and demand; correlates the activities of buyers and their assistants; may have general charge of *house sales,* i.e., sales made to customers when they visit the house to make their purchases in person; may supervise the work of outside salesmen who specialize in the sale of goods of one merchandise department; and, where receiving and stockkeeping are decentralized, he may also exercise general supervision over stockmen, order fillers, and receiving clerks.

The Operating Division.—Probably next in importance in the average wholesale house is the warehousing function. In fact, the *warehouse* in wholesaling corresponds to the *store* in retailing, the meaning of the two words being essentially the same. Consequently, a responsible individual, the warehouse superintendent, is placed in charge of the operating division which includes warehousing. It is his duty to care for the physical condition and arrangement of stock. Under his supervision floor directories are compiled showing the exact location of each item carried in stock. Stockmen, whose duty it is to replenish forward stock with merchandise from reserve, and to keep the goods in order, are usually under his charge. He also exercises general control over all operating activities, including the receiving of incoming goods, order filling, packing, shipping, and local delivery. He hires the personnel for these departments and recommends or actually has power to effect promotions, transfers, and dismissals. Finally, he assumes full responsibility for the condition of the building, its fixtures and equipment. If receiving is decentralized, the personnel performing the duties incident thereto may be placed under the supervision of the merchandise manager, but when it is centralized, the receiving operations which are of a technical nature and involve problems of unpacking, checking, and preparation of the goods for sale, are properly put under the same authority which has charge of the movement and handling of the merchandise

within the warehouse until it has been delivered to customers or to common carriers.

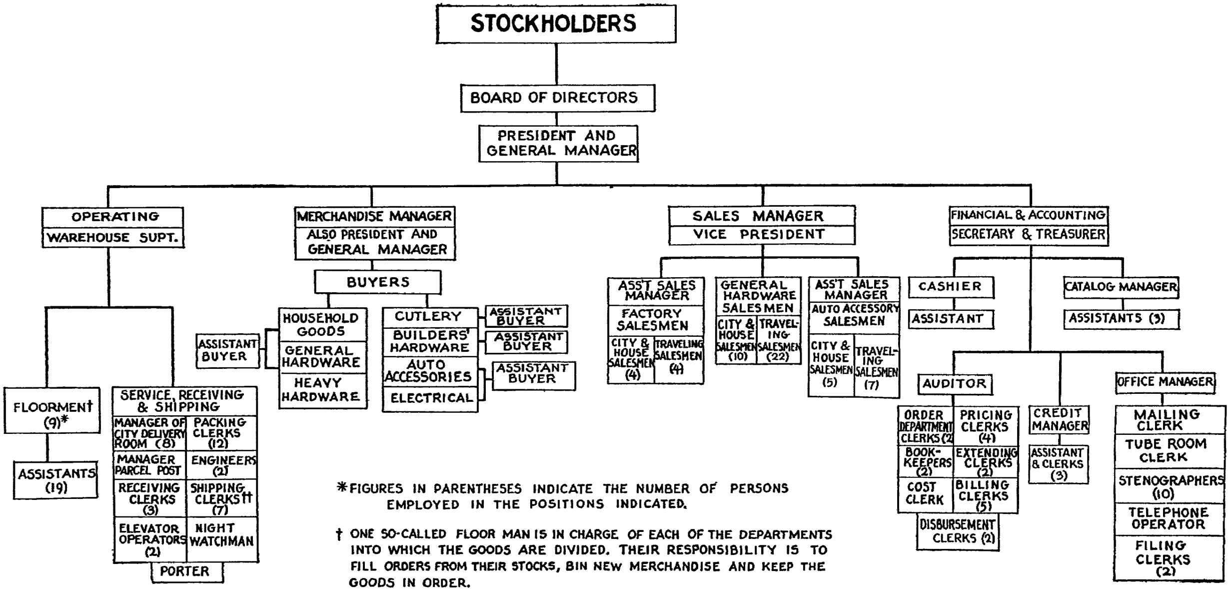
The Sales Division.—In many wholesale houses the sales function, as far as management is concerned, has been subordinated to buying and warehousing. While such concerns employ a number of buyers of high executive ability, relatively few of them have a real sales manager in charge of the work of their salesmen. Some houses have a supervisor of salesmen, rather than a true sales manager; others leave the matter of sales supervision to the respective buyers. In well-ordered and progressive concerns, considerable attention is given to the selling function, and the order-taking type of salesman has been replaced by the more aggressive type of individual. In such houses, the sales manager who is in charge of all sales operations has direct control of the work of his salesmen including hiring, training, and supervision, and has charge of the sample department, advertising, adjustments, and similar activities.

There is by no means any unanimity of agreement among wholesalers as to which of the functions fall in the sales division. For example, while advertising is closely related to selling, it is often placed in the merchandise division, because in the preparation and distribution of catalogs, which frequently is the main advertising activity, the buyers claim to possess greater knowledge of the work due to their intimate acquaintance with the merchandise. Sometimes the credit and collection function is placed in the sales division on the theory that more effective cooperation of salesmen in securing credit information about customers, and in making collections, is thus made possible. As already indicated, house salesmen as well as outside specialty salesmen may be placed under the jurisdiction of the merchandise manager and the respective buyers whose goods are sold exclusively by such salesmen, but it is generally felt that a sales manager is better fitted to select, train, compensate, manage, and supervise salesmen and their activities than any other individual in the enterprise. For that reason, he alone should be charged with this responsibility, even though a given salesman handles the goods of a single department.

The Financial and Accounting Division.—This division is generally headed by the treasurer or secretary-treasurer of the company. Under him are placed the functions of credits and collections, office management, and accounting, with a credit manager, an office manager, and an auditor in charge of their respective subdivisions. In addition to maintaining general supervision of all of these activities, it is the treasurer's special task to handle the financial accounts of profit and loss and the capital accounts of capital stock, bonds, and investments. It is his further duty to receive all monies from whatever source, deposit them in the banks designated by the Board of Directors; pay all vouchers that have been audited and approved for payment; keep in custody all notes receivable, securities, and negotiable papers; make arrangement for the proper financing of the company's current needs and for the settlement of its obligations; and pay the salaries of the officers and department heads, which is usually done out of a special bank account maintained for the purpose.

Cashiers must record all cash transactions in the cash book or journal and keep subsidiary records on notes receivable and payable. They handle petty cash disbursements, pay the salaries of the general office staff, and prepare checks for the signature of the treasurer so that remittances can be handled. The credit manager and his staff are charged with the general duty of keeping losses from bad debts down to a minimum, but they must also maintain sales volume at a maximum by accepting as many risks as possible and cultivating customer good will.

The office manager is charged with the duty of supervising the work of the general office staff, including the order and billing departments or sections. He is responsible for the opening and distribution of incoming mail, for the typing and stenographic personnel, office supplies, and filing of records. The accounting department, in charge of the auditor or comptroller, makes all the necessary entries of the various transactions of the firm, prepares the payroll, takes off trial balances at definite intervals, prepares balance sheets and profit and loss statements as required, and maintains a statistical section for the analysis of the records for comparison purposes.



*FIGURES IN PARENTHESES INDICATE THE NUMBER OF PERSONS EMPLOYED IN THE POSITIONS INDICATED.

† ONE SO-CALLED FLOOR MAN IS IN CHARGE OF EACH OF THE DEPARTMENTS INTO WHICH THE GOODS ARE DIVIDED. THEIR RESPONSIBILITY IS TO FILL ORDERS FROM THEIR STOCKS, BIN NEW MERCHANDISE AND KEEP THE GOODS IN ORDER.

†† INCLUDING TRUCK DRIVERS

Figure 7. Organization Chart of a Wholesale Hardware House

Inasmuch as the functions described in the preceding paragraphs have been depicted only in a rather general way in Figure 6, it may be helpful to present a chart of an actual organization. Figure 7 shows the organization of a hardware wholesaler doing between three and five million dollars worth of business annually. Certain peculiarities are to be noted on this chart due to special conditions. For example, the house in question has for some years been engaged in the general hardware business, and when electrical supplies, radios, and automobile accessories were added to the line of merchandise, the sales manager had little knowledge of the new goods and their selling qualities; hence, a separate sales manager for these items was hired. Similarly, when the company decided to sell mill supplies to industrial users, specialty salesmen were employed to cultivate the factory trade and a sales manager was hired to supervise their activities. Furthermore, because of special circumstances, the work of preparing and maintaining the catalogs up to date is in the financial and accounting division rather than in the merchandise or sales parts of the organization.

Organization of a Chain Store Warehouse.—Figure 8 presents an outline of an organization believed to be typical of the larger chain store warehouses operating in the grocery business. Certain interesting points of difference, when compared to a regular wholesaler, are revealed. Purchasing, for example, is not an important function with the chain store warehouse, since the general office makes decisions on many items and no new items can be added unless it meets with the approval of the general office merchandise board or committee. The main duty of the purchasing agent is to determine what quantities to buy so as to keep inventories low. Another distinctive feature of a chain store warehouse organization is the work of the sales manager. His task is more in the nature of supervising the sales activities of the *retail units* of the chain than it is in promoting the *wholesale sales* of his goods. Another difference arises out of the fact that a chain store warehouse generally handles a larger number of lines of merchandise (though not as many items within each line) than the regular wholesaler. For ex-

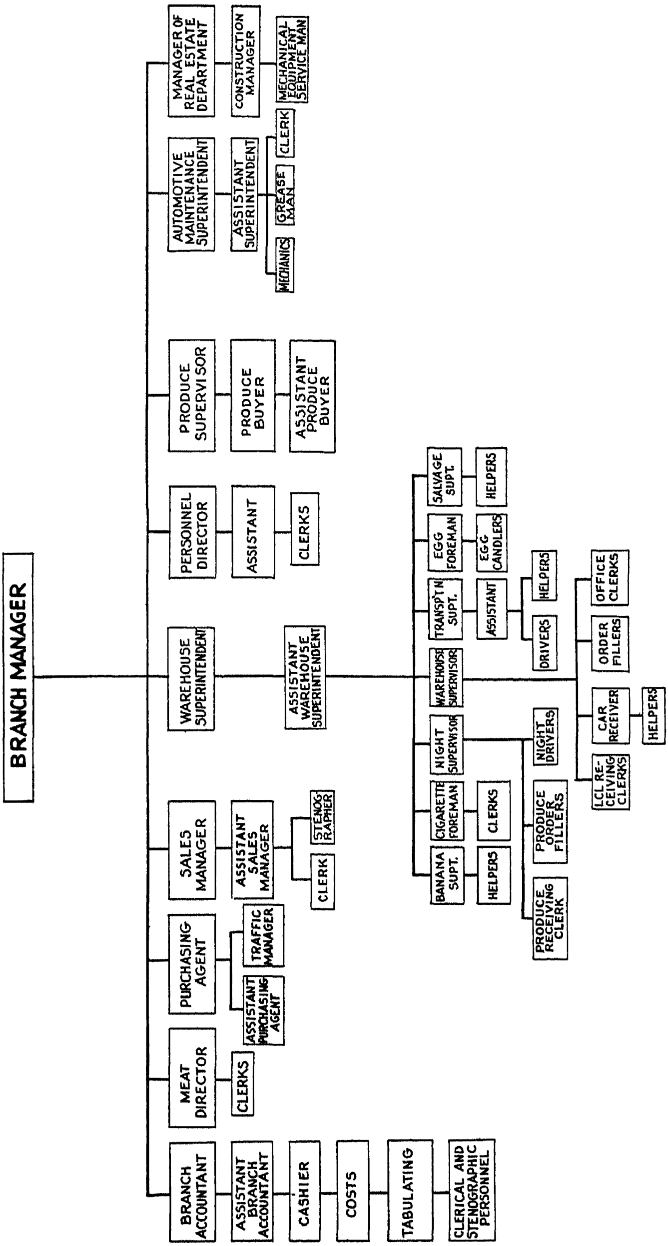


Figure 8. Organization Chart of a Grocery Chain Store Warehouse

ample, in the grocery field, chain store warehouses in addition to the goods normally carried by wholesale grocers also handle fresh fruits and vegetables, meats, butter, eggs, and other items of produce, and bread, although there is a tendency for wholesale grocers to adopt a similar practice. They also have a great deal more accounting work, since they must keep records not only of their own wholesale operations, but also of the operations of the stores within the branch's district. Furthermore, they are required to make detailed reports to the general office at headquarters. Thus, while some of the wholesaling operations are curtailed, others are added and enlarged.

Manufacturers' Wholesale Branch Houses.—Another distinctive type of wholesaling organization is the branch house, many of which are operated by manufacturers in various industries. Where such branches maintain warehouses they are faced with organization problems quite similar, in the main, to those discussed in the foregoing pages. The merchandising department, however, gives place to the sales division, since the house normally specializes exclusively in the products of the parent organization and is principally concerned with selling.

CHAPTER 17

BUYING

Importance and Nature of the Buying Function.—It is almost axiomatic that the fundamental principle in wholesale merchandising lies in the ability of the firm to have the right goods at the right prices at the right time and in amounts sufficient to fill existing demand. This principle gives rise to the necessity for definite and comprehensive knowledge of what to buy, how much to buy, and when and where to buy. The necessity for specialized, technical buying has been accentuated during this century by the variety of articles in demand, the number of parallel brands of the same type of article, and the growing number of sources of supply. While the old adage that "goods well bought are half sold" has lost much of its strength in recent years and emphasis has shifted to the selling function, it remains true, particularly in wholesaling, that goods bought in accordance with sound merchandising principles will gather the least dust and turn the fastest. As a result buyers occupy an important position in the organization of a wholesale enterprise. Not only do they generally hold executive positions but there are several of them in every house of any size. For the 69 dry goods houses studied by the Bureau of Foreign and Domestic Commerce in the Gulf Southwest, the number of buyers averaged 3.3 per house.

Buying or purchasing for a wholesale house differs radically from mere ordering. Ordering is the carrying out of a purchasing transaction in accordance with a planned procedure for buying predetermined amounts of certain types and qualities of merchandise from sources already decided upon. Buying, on the other hand, is more inclusive and intricate. It implies, first of all, an accurate anticipation of demand from customers. Sources of goods to supply this demand must be carefully selected in the

light of certain factors; correct quantities to be purchased must be determined on the basis of estimated sales, existing stocks, and general conditions of supply and demand; methods of buying must be chosen; a correct purchasing procedure must be developed; and when the goods arrive provision must be made for receiving and pricing them. Thus, the buying function really begins long before orders are placed and ends only after the goods have been received and priced.

Buying Policies

Every well-ordered wholesale house follows definite courses of action which define the aims and procedures of the enterprise by which the concern is recognized in the trade. These policies provide guidance in the solution of problems that are likely to arise recurrently in the different departments of the business. Some of them are of a general character which treat of the broader aspects of the business; they are established by the administrative officers and are known as major policies. Major buying policies deal with such questions as whether and to what extent private branded merchandise should be handled, whether and to what degree the house should seek exclusive or selective representation of manufacturers' products, the number and completeness of merchandise lines to be carried, and under what circumstances new items should be added to the stock of goods. There are, on the other hand, a number of detailed minor policies, designed to carry out the broader outlines of the business, which are formulated by the various managers for their respective departments. Buying policies of this kind refer particularly to the quantity to be bought at any given time, desirability of concentration of purchases with relatively few sources of supply, and the selection of vendors.

Quantity Buying.—During the past decade and a half there has been a tendency on the part of wholesalers to purchase frequently and in small quantities. Even before the depression which began late in 1929 wholesalers had followed this practice. Of 78 hardware wholesalers reporting on this item, 35 stated that they were buying more frequently and in smaller amounts

than in the past. The same situation apparently obtained in the furniture and floor covering business; and, of 70 dry goods wholesalers from which such information was obtained only 19 were buying in carload lots.[1] Wholesalers have been motivated to follow a policy of so-called "hand-to-mouth" buying by their desire to increase stock turnover, to avoid speculative losses on market declines, to insure against carrying leftovers from season to season, and to take advantage of changes in style and of special lots toward the end of the season which may be bought at attractive prices. This policy, which is largely attributable to a similar buying plan first initiated by retailers, has resulted in higher wholesaling costs. To some extent, however, it has been a logical outgrowth of improved transportation facilities. The maintenance of reserve stocks by certain manufacturers at accessible places from which the wholesaler's orders can be filled promptly has been at once an outgrowth of and a contributing factor to hand-to-mouth buying.

Nevertheless, small-lot buying is not without its disadvantages. It tends towards understocking which is just as undesirable and uneconomical as overstocking, the former resulting in *outs* and substitutions both of which create ill-will, and the latter in higher operating expenses. While small-lot buying by the wholesaler reduces losses incident to unfavorable price changes on a falling market, by the same virtue it minimizes the possibility of making speculative profits on rising markets. Besides, there are certain conditions, such as surround the purchase of seasonal goods, which necessitate large-quantity purchases several months or a year in advance. There may also be opportunities to buy large blocks of merchandise at unusually attractive prices, sometimes even below the cost of production. Finally, it is one of the wholesaler's main functions to maintain large reservoirs of stocks; consequently, when he attempts to pass back to the manufacturer the burden of carrying stocks, he is undermining his own position by shirking his major responsibility and thereby encouraging the producer to do his own wholesaling.

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[1] Domestic Commerce Series—No. 43, p. 33, 1931; No. 52, p. 73, 1932; and No. 76, p. 30, 1933. All available from U. S. Government Printing Office.

A problem which is closely akin to that of *quantity versus small-lot buying* is that of the *frequency of purchases.* The nature of the goods largely determines the policy of a firm on this point. Well-known brands of merchandise may be bought satisfactorily at relatively frequent intervals, based upon data showing stock on hand and the interval elapsing between date of order and date of delivery. For seasonal goods, market activity centers in certain months of the year, when the bulk of purchases must be made, supplemented by *reorders, fill-ins,* or *emergency* orders. *Jobs* are bought as opportunities appear and as the needs of the business justify. Manufacturing conditions may also have a bearing on the frequency of purchases. Some goods may be produced only to order while others are generally manufactured to stock. The former must be bought long in advance and in large amounts, while goods of the latter type can be secured as needed.

Concentration of Purchases.—The number of sources from which wholesalers buy their goods depends upon many factors, among which are, the presence or absence of style, the degree of merchandise specialization, the use of selective distribution in a given line of business, the choice of channels of supply, and whether the wholesaler operates on an exclusive agency agreement. When a wholesaler deals in staple goods, handles a limited line of merchandise, represents certain producers exclusively or selectively, and buys largely from selling agents and others who represent a number of manufacturers, the sources of supply are apt to be less numerous.

Above all, the policy of the wholesale house itself on this question is of great importance. Some buyers contend that it is advantageous to concentrate the purchase of their requirements and to buy regularly from a limited number of sources. They may thus secure better terms and discounts, they become preferred customers, secure better service and prompt delivery, and the tendency to overbuy is reduced to a minimum. Other buyers prefer to scatter their orders widely among many vendors. This is particularly true in such trades as dry goods where, though the market is fairly concentrated in

New York and Chicago, producers operate on such a small scale, manufacture such a limited assortment of merchandise, and styles change so rapidly, that buyers must be constantly on the alert for new sources of supply. As a result the average wholesaler in this trade normally buys from 1,000 to 1,500 sources. For staple goods in this trade, purchases are made from about half as many sources as are used for goods subject to rapid style changes. Other reasons for scattering purchases among a large number of sellers are lack of special inducements by producers to encourage concentration, and unwillingness of many manufacturers of limited capacity to tie up their trade with a few outlets which might affect their independence.

Policy on Sources of Supply.—Many factors enter the final determination of policy on sources of supply. In choosing a particular manufacturer to fill a given order, the fundamental question, *from what general class of producers such a vendor is to be chosen,* must be predetermined. Price and other factors will influence this decision. A wholesaler may desire to know whether a given manufacturer confines his distribution through wholesalers, advertises extensively, renders personal selling assistance, offers price protection, and provides certain desired services. Some wholesalers resent the practice of manufacturers selling both through them and direct to retailers, particularly to the smaller ones who generally buy from the wholesaler. It is claimed, for example, that the wholesale dry goods business has been "confused, disorganized and, to an extent, demoralized, by the selling policies of the very manufacturers who depend most largely on wholesale distribution" because of sales of a minor portion of their product to retailers at the same price charged to wholesalers. This, it is alleged, "produces an unfair competitive situation, which definitely discriminates against those retailers who are supplied through wholesalers, and gives an unjust advantage to those retailers who are supplied by the manufacturer direct."

In this situation, a list was prepared to be used by wholesalers, if they chose to do so (since coercion or suggestion that it be followed would be contrary to law), rating the various

manufacturers of dry goods according to their selling policies, consisting of those who (a) sell only through wholesalers; (b) sell regular goods through wholesalers only, but manufacture goods under buyers' specifications and labels for national chains and mail-order houses; (c) sell regular or identified products only to wholesalers and large metropolitan department stores, allowing a reasonable differential to wholesalers; (d) sell their regular products generally but allow a reasonable differential to wholesalers; (e) sell regular goods to wholesalers, large department stores, national chains, and mail-order houses and allow no differential in price to wholesalers; (f) sell the same goods to both wholesalers and retailers at substantially the same price; (g) announce one selling policy and practice another; and (h) those who failed to supply any information concerning their selling policy.[2]

Selection of Sources and Methods of Buying

Factors in Choosing Vendors.—Within the limitations imposed upon the buyer by the general policy of the house it is necessary to provide for the appropriate selection of merchandise sources. While the selling policy of the manufacturer is a matter of dominant concern to the wholesaler in choosing a vendor, there are many other factors which must be taken into account. Closely related to price which is necessarily of prime importance, are the problems of freight charges and credit terms. When freight is an expensive item, other things being equal, local or sectional industries may be favored rather than distant manufacturers. Speed in delivery is important, as are the method of packaging, changes in style without consideration to old stocks, guarantee of performance and quality of the product, and other factors previously mentioned. Adequate attention must always be given to differences in quality of the goods themselves and their salability to the public.

Information on these points may be obtained from several sources. Past experience with the vendor as recorded in the buyer's office is probably one of the best. Manufacturers' catalogs and the various registers like Thomas', Donnelley's, and

[2] "Dry Goods Wholesalers," Wholesale Dry Goods Institute, Inc., 1935.

Sweet's are still other sources. The vendor's financial and credit reliability are rated by Dun & Bradstreet, Inc., and similar information can be had from special mercantile agencies, from such manuals as Poor's, Moody's, or the Manual of Statistics, from various trade associations, credit interchange bureaus, and from sellers of allied lines of merchandise.

Types of Sources Available.—Many of the goods purchased by wholesalers are bought directly from manufacturers. The amount procured in this manner varies from trade to trade. For all kinds of business wholesalers buy, either directly from producers or through manufacturers' wholesale branches, about 35% of all goods manufactured in this country. This represents roughly 75% of all goods handled by wholesalers proper. The remainder is purchased from selling agents, manufacturers' agents, brokers, commission merchants, converters, and, for farm products, from the various assemblers and country buyers. The proportions of the goods sold by these various agencies and organizations to wholesalers are shown in Table 9.

Buying Methods.—There are five basic methods of buying merchandise for distribution to retailers. Goods may be bought from traveling salesmen employed by the sources of supply enumerated above, by mail, by visiting some central market place, through resident buyers and purchasing agents, or through brokers. In some lines of business practically all purchases are made by a wholesaler at his home office when manufacturers' salesmen call. This is especially true of staple goods, although large quantities of seasonal and style goods are also bought in the same way. This method is economical from the standpoint of the wholesaler; stock can be checked at once in order to determine the size of the order; and other members of the firm can be consulted about new items. The chief drawbacks to buying from salesmen are the inability to compare simultaneously the merchandise of rival sources, and the difficulty in securing special concessions, which may be possible on a visit to the market.

Many hardware and grocery wholesalers buy the bulk of their goods by mail or telegram through the aid of manufac-

turers' catalogs, registers, trade directories, or on the basis of previous experience. For trade of this type, buyers are precluded from going to market, because organized markets for such purposes are non-existent; furthermore, the same type of merchandise or even the same brand is often bought year in and year out. It should also be noted that practically every wholesale firm uses mail, air mail, or telegraph for fill-ins, reorders, and emergency items, a method which in economy ranks next to buying from salesmen. It also facilitates buying when a large number of sources exist, goods are carefully and exactly described, and quotations are available through up-to-date catalogs and discount sheets on practically any article in a given line, whether stocked or not.

Buying at market centers has some distinct advantages. It enables buyers to study market conditions, to note and sense style movements, to inspect a wide variety of merchandise, to discover new sources of supply, and to observe the activities of other buyers. When actual purchases are made on such visits special terms and other arrangements are sometimes feasible. For dry goods, New York stands out as the primary market to which buyers from all over the United States gravitate, visiting it at frequent intervals depending largely upon the distance of the wholesaler and whether continuous connections are maintained through a buying office. Even the most distant wholesalers send their buyers to New York from twice to ten times a year. Through the Merchandise Mart, Chicago has been able in recent years to attract much of this trade. In the furniture industry, visits to the Chicago and Grand Rapids markets are made regularly because of the concentration of manufacturing plants in those vicinities and the semi-annual exhibitions that have become customary in the trade. In recent years Los Angeles, California, has been making a strong bid for some of this business. The extent to which actual purchases are made on such trips varies considerably. Some buyers make the trips primarily for the purpose of observing general conditions in their field, securing first-hand impressions, and seeking out new sources of supply. On the basis of this knowledge they are then in a position to buy from visiting salesmen or by mail.

Where such primary markets exist, wholesalers may maintain permanent connections therein through resident buyers, purchasing agents, or their own buying offices. The latter serve as headquarters for buyers, check shipments, and act in a liaison capacity. Some houses are associated with buying groups through which purchases are made cooperatively. Finally, approximately 7% of all the goods purchased by wholesalers is obtained through brokers, although in some lines of business the proportion thus bought is much larger.

Planning Merchandise Requirements

Advantages.—Instead of adhering to mere guesswork as a basis for purchases, progressive wholesalers have developed a merchandise budget, and plan their purchases scientifically, in relation to sales, stocks on hand, financial needs, and expenditures. The benefits to be derived from such an estimate of merchandise requirements are quite evident. Purchases are placed on a sound statistical foundation so that overbuying is largely eliminated; losses from sales due to *outs* tend to be minimized; substitutions in filling orders are reduced; reorders from customers are anticipated; delays in filling orders because of shortages in stock as well as back-ordering are reduced; the rate of stock turnover is increased; the way is paved for the formulation of a sound financial program; and the merchandise manager is enabled to exercise effective supervision and control over his buyers through the standards of performance that are evolved as a result of planning. Finally, through the records that are required in merchandise planning it is possible to discover slow moving lines which can be closed out and discontinued, to uncover leaks and shortages, to calculate the actual rate of stock-turn, and to provide a basis for figuring costs by lines of merchandise.

Factors in Formulating a Purchasing Plan.—Planning of merchandise requirements is ordinarily done for a period of a year, unless the goods are of a seasonal nature when the period may be either 3 or 6 months. Rapidity of stock turnover is also to be considered in determining the length of the period to

be covered by the plan. All planning is predicated upon a certain anticipated volume of business. How future sales are estimated will be discussed in the chapter on Advertising and Selling. Assuming this estimate, however, the next step in the formulation of a purchasing plan is to determine the size of the inventory that should be maintained to support expected sales volume. This may be decided upon the basis of the average inventory maintained during past similar periods, modified by changed conditions. Estimated sales are next reduced to a cost basis and are added to the estimated inventory at the end of the planning period. The initial inventory is subtracted from this sum in order to arrive at the amount of deliveries to stock expected during the period. This by no means coincides with the amount of purchases to be made during the period in question. A ratio must also be established between the time goods are ordered and dates of delivery. In certain fields manufacturers may not be able to make shipments promptly. Furthermore, the goods may be in transit for some time. The quantity to be bought may also be conditioned upon funds available for expenditure in the course of the budget period.

In some firms the budget for the entire house is determined first and then it becomes necessary to break the amount down by merchandise departments. In others the total purchase requirements are obtained only after the amounts for each department or line of merchandise have been separately estimated. When the goods are of a staple nature and in constant demand the amount of funds allowed to each department may be divided into monthly periods in order to check overstocking and to save funds for special buying opportunities. Even for seasonal merchandise this procedure is followed to a certain extent, although larger amounts must be spent at beginning of season.

Purchasing Procedure

The purchasing principles discussed above are worked out in practice by a fairly well-established purchasing technique. The actual procedure followed in wholesale buying must be known if the student is to understand the entire field of buying. By means of various systems to be discussed in the following

chapter it is possible to ascertain just what goods require reordering and in what amounts. In addition, buyers constantly study the requirements of their customers through personal visits to retail stores and through "want lists," i.e., lists kept of items not in stock for which customers have asked. They also study markets, watch the lines of merchandise offered by mail order houses (since their catalogs anticipate needs long in advance) and by competitors, and in other ways attempt to anticipate future needs of the trade.

INVOICE NUMBER	DATE INVOICE	DATE REC'D	QUANTITY	UNIT	LIST PRICE	COST			PURCHASED FROM
						DISC'T	FRT.	NET COST	
COMMODITY		BRAND			PACK				NUMBER

Figure 9. Commodity Purchase Record

The next problem is to decide from whom to buy the desired merchandise. In making this decision the wholesaler's purchase records are invaluable. Some buyers maintain a card index of suppliers, one card for each vendor showing what items can be bought from that source, terms of sale, prices, and comments on past dealings. While it is easy to maintain such a record, it is usually quite inadequate because it omits the quantities purchased, the quality of the goods received, the amount rejected, and similar items. It also necessitates a cross-index on a commodity basis. A better method is to keep a commodity and vendor record similar to that shown in Figure

9. Such a record shows when the goods were ordered, when received, the quantity purchased, the list price per unit, the discount from list price, freight charges, net cost, and from whom the purchase was made. The various inventory records are also exceedingly useful in making a selection of vendors, as are catalogs and price lists from manufacturers, and the other sources of information previously enumerated.

Purchase Orders and Files.—The next step in purchasing procedure is the execution and handling of purchase orders. All orders should be in writing, even when first placed over the telephone or by telegram, in order to avoid mistakes and misunderstandings. They are signed by the buyer, and may also require approval of the merchandise manager. Ordinarily, the purchase order is prepared in triplicate, the ribbon copy going to the vendor, one copy to the auditing department or treasurer, so that payment may be anticipated, and one copy being retained by the buyer. When a fourth copy is prepared, it is sent to the receiving department to be used when the shipment arrives, for checking purposes. A duplicate copy is often sent to the vendor with the request that he indicate the price at which each item ordered is accepted, and return to the purchaser as an acknowledgement. For a typical purchase order form see Figure 10.

Since at least one copy of each purchase order is retained by the buyer, the necessity for a proper filing method becomes apparent. These purchase order copies are usually filed by name of supplier in order to facilitate reference to it when the order is modified, delayed, or other changes are brought about as a result of correspondence. All such changes must be noted on it, so that when the goods are finally received it will be possible to determine whether the manufacturer has complied with the terms of the agreement, and, if not, the matter is made the subject for adjustment. This file is also used in following up orders delayed in transit. Such a file loses much of its value, however, unless a cross index card file is kept by commodities.

Another file that must be maintained in the buyer's office relates to back orders. When an order from a customer has

PURCHASE ORDER

THE AMERICAN HARDWARE COMPANY

CHICAGO, ILLINOIS

ORDER

No. 3095

SHOW THE NUMBER LISTED ABOVE ON YOUR INVOICE

KINDLY SHIP THE ITEMS LISTED BELOW IN ACCORDANCE WITH OUR INSTRUCTIONS:-

DELIVERY DATE TERMS: FREIGHT

QUANTITY	DESCRIPTION	PRICE

PLEASE MAIL BILL OF LADING WITH INVOICE

NOTE SHIPPING INSTRUCTIONS

THE AMERICAN HARDWARE CO.

PER

Figure 10. Purchase Order Form

The City Dry Goods Company

"BACK ORDER" AND "OUT" MEMORANDUM

Kansas City, Mo. 19__

Sold to

WE VERY MUCH REGRET OUR INABILITY AT THIS TIME TO FILL THE FOLLOWING ITEMS IN YOUR RECENT PURCHASE. WE EXPECT TO RECEIVE THE ITEMS WHICH HAVE BEEN PLACED ON BACK ORDER AND SHALL FORWARD THEM TO YOU UPON ARRIVAL. WE SHALL NOT RECEIVE THE ITEMS LISTED AS OUT SOON ENOUGH TO WARRANT A FURTHER RECORD.

IF FOR ANY REASON YOU DO NOT WISH THIS BACK ORDER TO FOLLOW PLEASE ADVISE US.

Back Order				**Out**			
STOCK NO.	QUANTITY	DESCRIPTION	PRICE	STOCK NO	QUANTITY	DESCRIPTION	PRICE

Figure 11. Notice to Customer of Items Filled Short

been assembled it is checked in the shipping room. If it is discovered that a certain item has been *filled short* because the goods were not in stock, the shipping clerk prepares an *out slip* showing the name of the customer and the item thus missing. The buyer then orders the merchandise on the basis of this information, notifies the customer of the action (see Figure 11), and files the *out slip* in a *back order* file according to *commodity.* At the same time a separate sales order is prepared for the customer, giving the items that were *filled short,* and placed in a file according to *customers.* When the *short* item is received the *out slips* are checked and the *back order* is forwarded to the stock room for filling.

Receiving and Pricing

The functions of the receiving department are to accept incoming shipments, to transport the merchandise to the receiving room, to unpack and check contents for both quality and amount, to distribute the goods to the proper departments and floors, to handle invoices, and to keep receiving records. Three general methods are used for the all-important work of checking the incoming merchandise: the invoice check, the complete blind check, and the partial blind check.

Methods of Checking Incoming Goods.—In checking incoming goods against the invoice the following procedure is common. When the invoice is received by the buyer who placed the order, he checks the items thereon against his copy of the purchase order to note discrepancies, if any. He then places the invoice number on his order copy and the order number on the invoice, so as to connect and identify the two forms.

The invoice is then kept either by the buyer or else in the receiving room until the goods arrive, when they are checked against it in order to determine whether the items stated on it have actually been received and are in good condition. It then constitutes the receiving report and is sent, together with the freight bill, to the buyer, who approves it, if satisfactory, and

Receiving Ticket

THE ELECTRICAL WHOLESALE CO. Date__________
INDIANAPOLIS, INDIANA
Order No.__________

*The Following Material Has Been Received Via*__________ *Charges $*______

*From*____________________

COUNT	CAT. NO.	NAME OF MATERIAL	REMARKS

Material described above received in good order________ Signed________
Date *Receiving Clerk*

*Via*________ *Charges, $*______ Cases______Cartons______Crates______
Bags______Pkgs.______Bbls.______

Figure 12. Receiving Slip, Ticket, or Report

forwards the two documents to the accounting department. By this method it is easy to identify an item and the amount. It is quick and economical and if an apparent discrepancy is found, the goods are rechecked immediately, thus insuring against unwarranted claims. At the same time checking by this method is liable to be done carelessly and haphazardly. Having an invoice before him, the checker may mark the amounts correct without carefully counting each item; he is thus apt to check from the invoice rather than from the merchandise. Again, invoices may be mislaid or late in arriving; in such cases blind checking must be resorted to or else the receiving room will be clogged. Finally, invoices are frequently mutilated in the checking room beyond recognition.

In using the complete blind check system, the checker lists the item and quantity as called off by another individual, known as the caller, on a form designated as the receiving slip or ticket (see Figure 12). When checking is completed this form is sent to the buyer where it is compared with a copy of the purchase order, or the invoice. Where there is disagreement a

recount is indicated. This is the most accurate method of checking, neither checker nor caller knowing what goods are expected or in what amounts. It also withholds from checker knowledge of the costs of the goods, as invoices are kept in the buyer's office until sent to the accounts payable division. The system is, however, uneconomical, since it consumes much time in preparing a complete record of the contents, the items may not be easily identifiable, and the checker may be unable to determine the exact description of the goods. Moreover, when a packing slip is enclosed with the shipment this method is defeated. From the foregoing it would appear that the *partial* blind check offers the best solution. It is a combination of the two systems mentioned above and has the advantages of both without their disadvantages. Under this plan, itemized invoices are furnished to the checkers, with quantities of each item omitted. The receiving personnel check the goods and fill in the quantities of each item in the shipment.

Types of Receiving Systems.—Two general types of receiving systems are in use in the wholesale field. One provides for centralized control of all receiving operations, while in the operation of the other, control is diffused or decentralized. When the former is used a separate receiving department may be created, but when receiving is decentralized the function is performed under the supervision of the respective buyers. Centralized receiving permits specialization in personnel and enhanced efficiency; it enables the management to allocate responsibility for mistakes and discrepancies and thus reduce leaks to a minimum; furthermore, less space is required than when receiving is decentralized. On the other hand, decentralized receiving obviates the necessity for a separate personnel to perform the receiving function; the work can be done by stockmen and order fillers in their spare time who may be more familiar with the merchandise in their respective departments.

Decentralized receiving is subject, however, to a number of disadvantages. It is extremely difficult to keep incoming merchandise separated from the other goods on the floor and to prevent order fillers from using it until after it has been checked.

More space is devoted to receiving, some of it being set aside for the purpose in each department or on each floor. During rush periods incoming goods may remain unchecked for several days and stockmen and order fillers may be so occupied as to require extra help for receiving. When goods in a single shipment are destined for more than one department, difficulties arise in checking them. When receiving and purchasing are combined and checkers have easy access to purchase records, there is a tendency to be lax in checking the goods. Finally, even when receiving is decentralized, a certain amount of such work must be done in a central location where the goods are received from the carriers, the number of packages counted, and the departmental destination is determined; hence there is some duplication in effort. Nevertheless, decentralized receiving is essential or advisable when the goods are so technical that the average clerk in the receiving department cannot properly identify them; when the goods are bulky and extra handling must be eliminated; when incoming merchandise is received largely during dull seasons so that idle stockmen can be used to advantage; or when the volume of business is too small to justify a separate receiving personnel.

Pricing Incoming Merchandise.—To determine the proper price at which incoming goods should be sold is another function which is usually the responsibility of the purchasing department. Since wholesale prices are exceedingly sensitive and fluctuate from day to day, proper pricing demands keen judgment and broad knowledge of current market conditions and probable future developments. The difficulties of the task are increased when a varying price policy is pursued by the firm, i.e., when different prices are charged to different customers depending upon their bargaining power or competitive conditions. Under such a policy both a minimum and a maximum price must be established for the guidance of the sales force. Even when a one-price policy is adopted, prices may still vary according to functions to be performed for different customers. There may be one price for cash sales without delivery, another for net cash on delivery, and a third for credit with delivery.

At any rate, goods must be priced so that the cost of the merchandise will be covered together with operating expenses, leaving a reasonable net profit margin. To be sure, not all items can be so priced; while some may permit extra large margins, others must for various reasons be sold at a loss.

In determining the price at which any given item must sell, consideration must therefore be given to a number of factors, among them being cost of the goods, including freight and drayage-in; average mark-up for the department involved; the competitive situation for such goods; rate of stock-turnover of the item affected; what the traffic will bear, particularly on style goods and others that are not strictly comparable to those offered by competitors; trade convention or practice; the degree to which the item in question differs from the average in the department as to bulk and weight, selling effort required, repackaging, special storage requirements, special licenses; and probable mark-downs caused by overbuying, obsolescence, breakage, pilferage, special allowances and discounts.

It is usually difficult to know the exact cost of a given unit of merchandise, because different lots of the same article may be purchased at different prices. The flexibility of wholesale prices and their quick reaction to changes in conditions of supply and demand must be taken into account in the pricing technique. Several methods may be used in determining the per unit cost of goods bought at various figures as a basis for pricing. One of them is known as the *last purchase method* and merely uses the unit cost of the last purchase. Another is the *replacement cost method,* which disregards actual cost but follows instead the current market price; that is, a per unit cost based upon the cost of a new lot of the same article purchased in the customary quantities. A third method is that of *first in, first out,* in which the cost of the articles of each lot of merchandise is exactly the amount paid for them, so that the unit cost is the one which applies to the oldest lot. When that lot is exhausted, the unit cost of the next purchase is used. While this method is relatively simple, it requires keeping track of each purchase and on a falling market it may not be possible to secure the higher prices warranted by the older merchandise.

The two most common methods of cost determination in use are the *weighted average* and the *moving average*. In computing the cost per unit by the weighted average method all of the merchandise costs of a given item are added together periodically and averaged by the number of units. No distinction is made between goods of one lot and those of another for identical articles, though different prices may have been paid for them at time of purchase. The main defect in this plan is the lag behind the current market. When prices are rising, the weighted average, being determined only at infrequent intervals, is below the market price and the reverse is true on a falling market. For this reason, the moving average is to be preferred. According to this plan, a new unit cost and hence price is determined after each purchase unless the goods are bought at the previous price. The cost is computed by adding the quantities purchased at the different prices and also adding the amounts paid for each lot, and then dividing the sum of the amounts by the total number of units on hand.

Not only must the merchandise be priced but the thousands of items handled by the house must have their prices recorded in a convenient fashion. For this purpose the buyer records in his price book enough information to identify the item with its price, which may be given in symbol form. From this book an official price list is prepared which may consist of a loose-leaf price book or the data may be placed in the house catalog, which then becomes the guide for all salesmen. Price lists are, in addition, generally furnished to all salesmen. These are prepared in loose-leaf form so as to keep them up to date more readily. As changes in prices take place, they are recorded in the home office in a price change book from which they are transferred to the official price list and thence to the price lists of the salesmen which are brought up to date weekly or biweekly. *Price change orders* may be issued from time to time, and, when the changes are important, salesmen may be notified by mail or wire. Only when the salesman is constantly informed as to what goods are available and at what price, is it possible to reduce *back orders,* substitutions, and quotations of unprofitable prices.

CHAPTER 18

WAREHOUSING AND STOCK CONTROL

An important proportion of the wholesaler's capital is represented by merchandise inventories. In fact, for most wholesale concerns it is their largest investment, frequently exceeding even the investment in buildings. In the average wholesale house it may amount to $200,000 or $300,000, although it often runs into a million dollars or more. This investment outlay becomes unprofitable unless the merchandise is properly cared for and sold within a relatively short time after it has been added to stock. The problem of warehousing deals with the proper care of merchandise while that of stock-turn and stock control is related to selling activities.

Warehousing

Warehousing Essentials.—Proper warehousing in a wholesale firm calls for the assignment of a definite place for every item in stock and for proper supervision to insure that each item is in the allotted location. A control book is usually maintained for the purpose, showing the location of every item according to the division, section, shelf, cabinet, drawer, bin, or bay in which it may be found. This information is frequently shown on cards, arranged in a location file.

Storage space must be laid out systematically and fixtures adapted to each type of merchandise. When no special fixtures are required, space for storing is laid off in blocks, each one properly identified by number or letter. When the stock comprises a large number of small items, it must necessarily be stored in bins, cabinets, drawers, or on shelves. In using the latter, care must be taken to see that they correspond in dimensions to the merchandise stored therein and that they are neither too small nor too roomy. Each fixture must be conspicuously

identified by letters or numbers, or both. Location designations are either stenciled or tacked on the proper fixture, the numbering and lettering proceeding outward and upward.

Cleanliness, both in substance and appearance, is another prerequisite to good stock keeping. Commodities which are odoriferous, such as matches and insecticides, must be placed at a distance from articles like sugar and coffee. Likewise, common salt must not be placed near tobacco or certain breakfast cereals, because in inclement weather salt tends to absorb enough moisture to endanger the other commodities. Stock should be properly stacked and arranged. Bags and paper board or fibre board containers are best stacked in interlocking fashion, while wooden cases can be piled one on top of the other. All floors in the warehouse must be well kept and clean at all times; no rubbish or obsolete goods should be allowed to accumulate; and broken lots must be kept at a minimum. Fallen boxes must be replaced and aisle-ways remain free from obstructions for passage of trucks and stockmen. The same principle applies to all equipment that may be used in the warehouses, including lowerators, chutes, escalators, conveyors, elevators, and stairs.

An ordinary rule of good warehousing is to fill orders from the older stock. This means taking merchandise from the open end of the shelf or other container, and replenishing the supply by placing the new merchandise back of the old. Sometimes old goods may be distinguished from new stocks by the position of the container, boxes containing new goods being inverted or the labels on such shipments being turned to the back. Occasionally, a tag attached to the goods may indicate date of receipt. Finally, good warehousing requires that the stock be located with reference to frequency of sales, bulk, and broken packages.

Advantages of Proper Warehousing.—The physical condition and arrangement of stock have a direct bearing on the facility with which stock records controlling merchandise movements are kept. When the stock is orderly, neat, and clean, inventory can be taken with greater ease and economy. The control book or location file may serve as a buyer's guide in determining what items should be in stock, although such informa-

tion can also be obtained from other and perhaps more reliable sources. When the few essentials of proper warehousing are observed, orders can be filled more quickly, old stocks are moved before they become obsolete or worn, and the morale of employees is maintained at a high level.

The duty of supervising all operations incident to warehousing falls directly upon the warehouse superintendent. However, since this function is so important in a wholesale house, one of the major executives, usually the general manager, may visit daily every floor and department of the warehouse. On this tour, he notes conditions that need attention and refers them to the superintendent who, in turn, transmits instructions to floormen or stockmen.

Stock Turnover

Nature and Advantages.—One of the best indicators of managerial efficiency is the rate of stock-turn. It is also regarded as the most reliable measuring stick for judging the efficiency of stock records. Stock-turn actually refers to the disposal and replacement of a given *amount* of merchandise; however, the term has come to mean the *rate* at which a given stock of goods is sold and replaced during a given period. This rate is usually computed on an annual basis and measures the frequency of the number of times a given inventory is disposed of and replaced during the year. To obtain this figure it is necessary to divide total sales during the year, taken at cost, by the average inventory similarly priced. The same result would obtain if both inventory and sales were figured at selling prices. Special precautions must be taken to insure that an average inventory figure is used; i.e., an inventory that is typical of the entire year's stock, and that both inventory and sales figures are on the same value basis, either cost or selling price, preferably the former.

Rates of stock-turn vary according to lines of merchandise. Wholesalers of automotive replacement parts turn their stock a little more than twice a year; those operating in the hardware field on the average have a stock-turn of about 3.5 times annually, while wholesale grocers achieve a turnover of about 6

times. Substantial differences may also be noted among different concerns in the same line of business, partly because of differences in geographic location, but largely on account of varying degrees of efficiency. Even within a single house, however, the different lines of merchandise sell at varying rates of speed. As already noted, the average rate of stock-turn in the wholesale grocery business is about 6 times a year but fast moving items like coffee have a turnover as high as 12, and sugar is turned about once every 10 days or about 36 times annually. On the other hand, slow items like spices and fancy canned goods may turn but once or less each year.

Within limits, the concerns that have the highest rate of stock-turn generally tend to be the most efficient. Dun and Bradstreet, as well as others who have studied the subject, claim that "overstock conditions are the cause of more business failures than any other factor." Such conditions usually result in higher occupancy expense, more interest on investment, higher taxes and insurance costs on inventory, greater cost of handling the inventory, and larger losses due to price declines, obsolescence and physical deterioration of the goods. Conversely, when the rate of stock turnover is increased, savings are effected in interest, rent, taxes, insurance, handling costs, and through lessened depreciation and obsolescence. Furthermore, the fresher condition of the stock, resulting from a more rapid movement of the goods through the warehouse, tends to enhance the good will of customers. These advantages are ultimately reflected in increased net profits and a higher return on invested capital. Thus, concerns that have achieved a satisfactory rate of stock-turn may operate on a smaller gross margin and yet obtain a higher net profit percentage, largely through a drastic reduction in operating expenses.

Limitations to Rapid Stock-Turns.—While rapid stock-turn is an index of good merchandising, there are several reservations. There seem to be definite limits beyond which a quickening in the movement of goods may bring trouble in the way of stock shortages and loss of trade. To avoid such shortages, back orders, and dissatisfied customers, adequate inventories,

though not necessarily large ones, must be carried by the wholesaler. They should be large enough and sufficiently well-balanced to enable him to meet the normal requirements of his trade, for it is his function to supply the wants of his customers at all times with least friction. If the wholesaler attempts to pare down his stocks too severely and to keep the goods flowing through his warehouse beyond certain limits, he fails to that extent to perform the function of storage. The necessity for the performance of this function on the part of the wholesaler has been increased by the retailers' policy of buying in smaller quantities at more frequent intervals.

Other factors that militate against undue rapidity in the rate of stock movement are to be found in the seasonality of certain goods, location of the wholesaler, quantity buying opportunities, private branding policy, and the desire for speculative profits. When goods are either produced or consumed seasonally, such merchandise very often must be bought by the wholesaler considerably in advance and in large quantities. This tends to reduce the rate of stock-turn. Similarly, advance buying in large quantities may be dictated by the distance of the wholesaler from his sources of supply. For example, a hardware wholesaler in Texas usually carries larger inventories in proportion to sales than one located in Ohio or Pennsylvania. Quantity purchases may also be desirable because of the more advantageous prices at which goods can be bought and possible savings in freight rates. It is then a question of measuring the loss due to a more sluggish turnover against the price and other cost advantages obtained. When a wholesaler embarks upon a policy of selling goods under his own label, he assumes certain responsibilities, one of which is uniformity in the quality of his products. To insure a high degree of uniformity it is often necessary to buy the entire season's supply in advance. Concerns thus operating usually have a lower rate of stock-turn and may incur larger expenses, but because of the wider margin which private branded goods normally bear they may end the year's operations with a higher net profit percentage. Finally, when a rise in prices is anticipated the desire for speculative profits may prompt the wholesaler to purchase in large quanti-

ties, in the hope that anticipated enhanced profits will more than offset whatever additional costs are incurred through a slowing up in the turnover rate.

Increasing the Rate of Stock-Turn.—Neither understocking nor overstocking are desirable, both being dangerous practices for the economic well-being of the wholesaler. Most firms, however, suffer more from overstocking, and it may not be inappropriate at this juncture to point out some of the ways in which such a condition can be remedied and a more rapid, but at the same time justifiable, rate of stock-turn attained.

One of the ways of accomplishing this result is through a simplification of stocks, that is, a reduction in the number of varieties carried, particularly those of a parallel nature, and the elimination of items for which calls are few and infrequent. Another possibility is to resist the lure of attractive new merchandise without first determining its salability and probable effect upon the items or lines already carried. A wholesaler should refrain from adding to his line goods that are intrinsically slow-moving, and which merely involve a split of sales with other competing brands in stock. A third way of increasing the rate of stock-turn is through proper departmentization. Rates of turnover for the entire stock are a general indication, but they do not point specifically to the offenders. A detailed classification of merchandise makes it possible to ascertain the correct rates of turnover by both items and departments, thus revealing the items that are profitable, those that should be eliminated, shrinkages, and other essential facts. Since buying depends so much on the exercise of good judgment and upon certain other factors affecting demand, such as weather, which are difficult to predict, it is inevitable that mistakes will be made, and that some goods are purchased which linger in the warehouse. When permitted to accumulate, such goods slow down the rate of stock-turn and eventually result in losses from depreciation. A wise policy to pursue is to dispose of these goods as soon as their inactivity is discovered, either through special sales effort, higher commissions to salesmen, price reductions, or by other similar means.

Thus the most potent of all devices to increase the rate of stock-turn, without at the same time incurring the danger of understocking, is that of accurate knowledge of the condition of the stock and every component part thereof. Such information can best be obtained through the maintenance of adequate stock records. An effective system of stock records furnishes exact knowledge of all merchandise on hand and the capital invested in it; it reveals the quantity of every item needed that is consistent with a policy of maintaining the smallest adequate inventory. It serves as a guide in buying goods; it discloses obsolete or inactive merchandise as well as those items that are particularly lucrative. Stock records also aid in securing equitable insurance adjustments in case of fire or theft; are used in preparing financial and profit and loss statements, in determining the average per cent of profit, and in ascertaining merchandise depreciation. They are used as a basis for planning merchandising campaigns, and in determining the earnings of the enterprise for income tax purposes.

Stock Control Through Physical Inventories

Stock records are not synonymous with stock control, but the latter is helped materially by adequate and accurate records, as will be seen from the pages that follow. Proper warehousing and logical merchandise classifications are the other major prerequisites to an effective stock control system. Such a system constitutes the very heart of a wholesale business and no other single problem vitally affects so many phases of the enterprise or exercises so profound an influence on net profits.

In a wholesale house stock control is secured through inventory systems. An inventory may be defined as a periodical counting and recording of merchandise and its estimated worth. It may be taken at definite intervals or maintained continuously. Many modifications and variations of inventories may be found in actual practice, but essentially all inventory systems now in use by wholesale firms may be classified into the following types:

1. Actual Physical Inventory.
2. Physical Inspection.

3. Continuous "Stock Taking."
4. Tickler Method of Inventory.
5. Statistical Inventory.
6. Purchase Record System of Control.
7. Real Perpetual Inventory.

The first four types of stock control require physical contact with the goods, while the remaining three types of control are achieved mainly through records. These methods of control are adapted to different lines of business and each is suited to special conditions. Inasmuch as large varieties of merchandise may be handled by a single wholesale house, and the circumstances underlying the operations of a given concern may differ from those of another, it is to be expected that houses in the same line of business may use different methods of stock control. Even in a single establishment two or more methods of control may be utilized for different classes of merchandise. Furthermore, adaptations must be made of any one type of control to the personnel and other special characteristics of the firm adopting it.

Actual Physical Inventory.—Irrespective of the method used in determining monthly, weekly, daily, or perpetual inventories, the actual physical inventory cannot be eliminated. When properly taken, it is the most accurate of all inventory systems yet devised, is the only means of checking upon the accuracy of other methods of stock control in use, and is superior to the alternative methods in unearthing leaks and losses. Such an inventory, therefore, must be taken at least once or twice a year. If the supplementary records maintained are inadequate, actual physical inventories should be taken at more frequent intervals, probably once a month, although the validity of such practice is questionable, as is shown below.

Before taking an actual physical inventory, certain preparations must be made. All merchandise must be arranged in an orderly manner and in accordance with the classifications in use. Broken packages are filled or taken to the broken package room, containers are repaired and replaced, and the warehouse is cleared for speed in the inventory process. A responsible offi-

cial of the company supervises the work in which he is assisted by the various department managers and buyers. In taking this kind of an inventory each item in stock is actually counted, whether in the warehouse of the company, in outside warehouses, on the shipping floor, in the receiving department, or in the broken package room. Furthermore, the goods must be inspected for quality, age, and general condition. Spoiled, deteriorated, shopworn, and obsolete goods are set aside and excluded from the regular inventory.

To accomplish the counting and inspection, two principal methods are used by wholesalers, the tag method and the inventory sheet method. When tags are used one person acts as both counter and marker. Under this plan it is not necessary to close up the plant and cease business operations while the goods are inspected, counted, measured or weighed but only for a short time while the tags are being gathered. A tag, similar to that shown in Figure 13, is prepared for each article. To prevent loss, the tags are numbered consecutively and a given series of numbers is assigned to each person participating in taking the inventory. The tag is perforated into two parts, and when the quantity of an article is determined it is posted both on the stub and the detachable part; it is then wired to the merchandise or container. On the lower part, spaces are provided for the recording of additions to and withdrawals from stock since the count, and for the

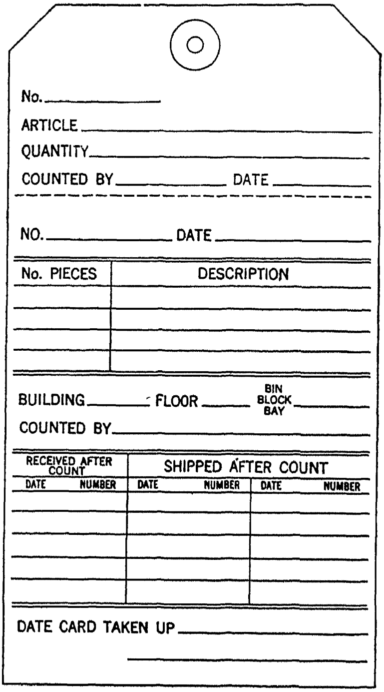

Figure 13. Inventory Tag

date the tag is taken up. When all items have thus been tagged, the detachable parts are collected and taken to the office where the items and quantities are copied on inventory forms, similar to that shown in Figure 14.

Department———— Sheet No.——— | Sheet No.

Date———— 19—— Details of———— Stock——— | Stock

Called by——— Entered by——— Priced by——— Calculated by——— Verified by———

Stock No.	Description	Quantity		Cost Price	Present Market Value	Per	Inventory Extension		Totals	Proof Extension
	Amount Forward									

Figure 14. Physical Inventory Sheet

If the inventory sheet method is used, the work is done in pairs, one calling and inspecting the merchandise as it comes, and the other entering the description and quantities on the sheet. After the first count, checker and caller change places and go over for a second time the entire stock to which they were assigned. Sometimes the sheets are exchanged with another pair working in a neighboring section, for rechecking. All sheets are numbered in the office to prevent losses.

The inventory sheets containing the items and quantities are submitted to buyers for pricing, either at cost or market value, or according to whichever policy the concern chooses to follow. After this the items are extended; i.e., the number of units of each article is multiplied by the price, and totals are entered for each sheet. To enhance accuracy in this work, responsibility is allocated for every operation by requiring each clerk to initial in the appropriate place the nature of the work done. An additional column may be provided for extensions, so that after the

first column of extensions is made it can be torn off at a perforated place and the extensions made a second time, after which the two are compared to insure accuracy.

From the foregoing description it is apparent that the actual physical inventory cannot be used as a sole method of stock control. To do so, would necessitate taking such inventories at frequent intervals. This would be a dreaded ordeal, since it usually requires closing down the plant, and calls for much preparation of the stock in the warehouse. Likewise, pricing is a difficult task, and the calculating of extensions and verifying them are tedious operations representing much clerical work and time diverted from regular business. Moreover, the job of inspecting and counting the merchandise is unpleasant. As a result the work is rushed through, and salesmen and others not interested are often pressed into service. The outcome is that there are errors in the count, in the description or identification of the items, in the recording of quantities and prices, and in making extensions and verifications, as well as in adding up totals. Thus, while the actual physical inventory is the most accurate of all when properly taken, serves as a check on others, and helps to discover shortages and merchandise of poor quality, the conditions under which it is usually taken militate against its frequent use. Every attempt is made to take such an inventory when the stock is the lowest, such as the end of the calendar year or in the middle of the summer before goods for the autumn season are received.

Physical Inspection.—This method of stock control is by far the simplest yet devised, is the easiest means of keeping track of stock movements, and is the most economical. It simply involves placing responsibility on some persons for reporting items which are running low, although on occasion the system may also call for reports on slow-moving items. This responsibility may be assumed by the buyers themselves or may be placed upon stock clerks, order fillers, or even porters. The buyer may make a regular trip daily through the warehouse or through the portion for which he is responsible, familiarizing himself with the stock, and compiling at the same time lists of wants and slow

movers. When others are charged with that responsibility they are furnished with a want list, in which items that are being rapidly depleted are entered and called to the attention of the buyers. These are sometimes supplemented by special reports, such as those obtained when vendors' salesmen call, or when important orders are placed by mail. If the task is assigned to a single person, the work is usually so divided that one floor is inspected each day. This method of control is the least scientific and most haphazard. Its application is limited to those lines of business, like groceries, where numerous units of a given article are constantly kept in stock and the merchandise can be so arranged as to make an estimate of conditions, based upon a quick inspection, possible.

Continuous "Stock Taking."—This method of inventory, sometimes called *count of stock* control, resembles in some ways the actual physical inventory, but differs from it in the following respects: (1) only *whole* goods are counted, i.e., merchandise in original containers and excluding broken packages; (2) goods are not inspected for their physical condition; (3) in *stock taking* rechecking the count is eliminated; (4) since no values are used there is no need for pricing, extension, verification, or totaling. The elimination of much of the work attendant upon an actual physical inventory makes possible the continuous use of the stock-taking method of physical count. Special forms may be provided on which to report the condition of stock. *Low* reports indicate an impending shortage on fast-moving items; *out* reports are prepared when immediate reordering is essential. *Short lists* serve the same purpose as *out* reports.

This inventory method is used solely for the control of purchases with the view of reducing outs and shortages, preventing stagnant stocks, and securing a maximum turnover. Under this plan the merchandise is counted weekly, bi-weekly, or monthly; the work is done regularly by stock clerks or on Saturdays with the assistance of outside salesmen. The sheets used for the purpose have spaces for the quantity in stock; for purchases, obtained from the purchase records; for receipts, in-

formation for which is taken from the receiving reports; and for sales which are secured from the sales ledgers or by calculation. A careful study of the information on these sheets over a period of time will disclose the intervals normally elapsing between date of placing an order and date of receipt of the merchandise, and indicate the amount of stock on hand in relation to sales on the one hand, and to orders placed for which no goods have as yet been received on the other.

The periodical count involved in stock taking is best adapted to concerns in which the merchandise is stored in original packages as received from manufacturers, containing a comparatively large number of individual units, and whose sales are large in number but are made in small quantities. If sales are relatively few and individually substantial, it would be more economical to install a real perpetual inventory system. Similarly, too much time would be required in counting the items if the goods consist of many articles, of which but few units each are kept in stock. This method of control has some of the characteristics of an actual physical inventory and some of the features of a real perpetual inventory, since it is a unit control method rather than one of values. It is not as accurate as these, however, and cannot be used for accounting purposes, nor is it adapted to all kinds of business.

Tickler Method of Inventory.—The tickler method of inventory embodies some of the characteristics of the real perpetual inventory in that it deals with physical units rather than values and includes all goods whether in original containers or in broken packages. At the same time, the figure is obtained through a physical count which is not true of the real perpetual inventory; nor is the count taken frequently enough to deserve the designation "perpetual." This method of inventory is based on the assumption that various items in a wholesaler's stock, particularly in certain departments, move at different rates of speed. Therefore, to inventory all items with the same frequency would be wasteful and uneconomical. To eliminate such waste effort, the items are ticklered to come up for inventory at intervals which are determined largely by their respective rates of turnover.

Under this plan, some items are given attention weekly, some bi-weekly, and others at longer intervals. In establishing the tickler, flexibility is essential so as to allow for shifts in the intervals at which articles are to be counted. Sheets are then made out, each containing items of the same inventory interval. These sheets are so filed that they come up automatically at the designated time. The figures recorded on these forms are transferred to stock control cards, on which may also be information on orders placed, goods received, sales made, and other data thought necessary. The tickler principle is frequently applied to the *stock-taking* method of inventory just described, according to which the merchandise is classified for counting purposes on the basis of stock activity. When a merchandise department contains a large number of items of comparatively low unit value, and unit control is desired, the tickler method affords the only practical solution. It has the further advantage in that inventory work can be distributed evenly and made a routine matter.

Stock Control Through Records Only

Statistical Inventory.—A so-called perpetual inventory may be maintained by statistics, showing the value of merchandise in stock, by departments, or other merchandise classifications. The account carried for each department or classification is charged with the initial inventory and all purchases made during the period, and is credited with sales effected during the period, figured at cost. The balance represents the value of merchandise on hand. The principle, stated briefly, is initial inventory plus purchases less sales equals final inventory. This computation may be repeated at frequent intervals, usually monthly. Most wholesale concerns make use of this method at one time or another; for example, when preparing monthly financial statements.

While simple in principle, the application of this type of inventory presents considerable difficulty because it requires that sales, purchases, and stocks on hand be recorded on the same basis, preferably that of cost. Inasmuch as purchases and inventories are generally carried at cost, it is necessary only to

reduce sales to a cost basis, but to do this, a knowledge of gross profit becomes essential. One of the methods of ascertaining the gross profit is to *figure* it on each item appearing on every sales order; another is to *estimate* the gross profit percentage. A number of wholesale houses figure gross profit on their sales orders by showing thereon the actual cost price of each item as well as the selling price, the difference between the two being the gross profit. When orders of the same article are purchased at different prices, a weighted or moving average is normally used in determining the cost per unit as explained in the chapter immediately preceding. The computed gross profits, together with sales at selling prices, are summarized daily by departments or other merchandise classifications and at the end of each month a summary is compiled. Figure 15 illustrates the type of record adapted to this purpose. On it are posted daily total receipts obtained from invoices, net sales at cost, and balance on hand. The progressive signal at the left (green) indicates the current rate of turnover, and the signal at the right (orange) indicates the percentage of stock above or below normal requirements.

In the absence of figured gross profits, which are more or less difficult and expensive to obtain, the average percentage of gross profit on sales is estimated for each department or classification, these estimates being based on previous experience and corrected when necessary to reflect current conditions.

The statistical or book inventory method of stock control is sound, simple, and practicable. When gross profits are actually figured, or when estimates are carefully made, it is accurate enough for control, though not for accounting, purposes. As compared to a real perpetual inventory or to the tickler method it requires little clerical work, and is more economical than frequent stock taking. At the same time it shows in a timely way the approximate condition of stocks in each department and provides information for a monthly profit and loss statement. The inventory thus derived can also be used in the preparation of financial statements for credit and tax purposes. This method of control, however, especially when gross profits are estimated, is limited in application to staple merchandise,

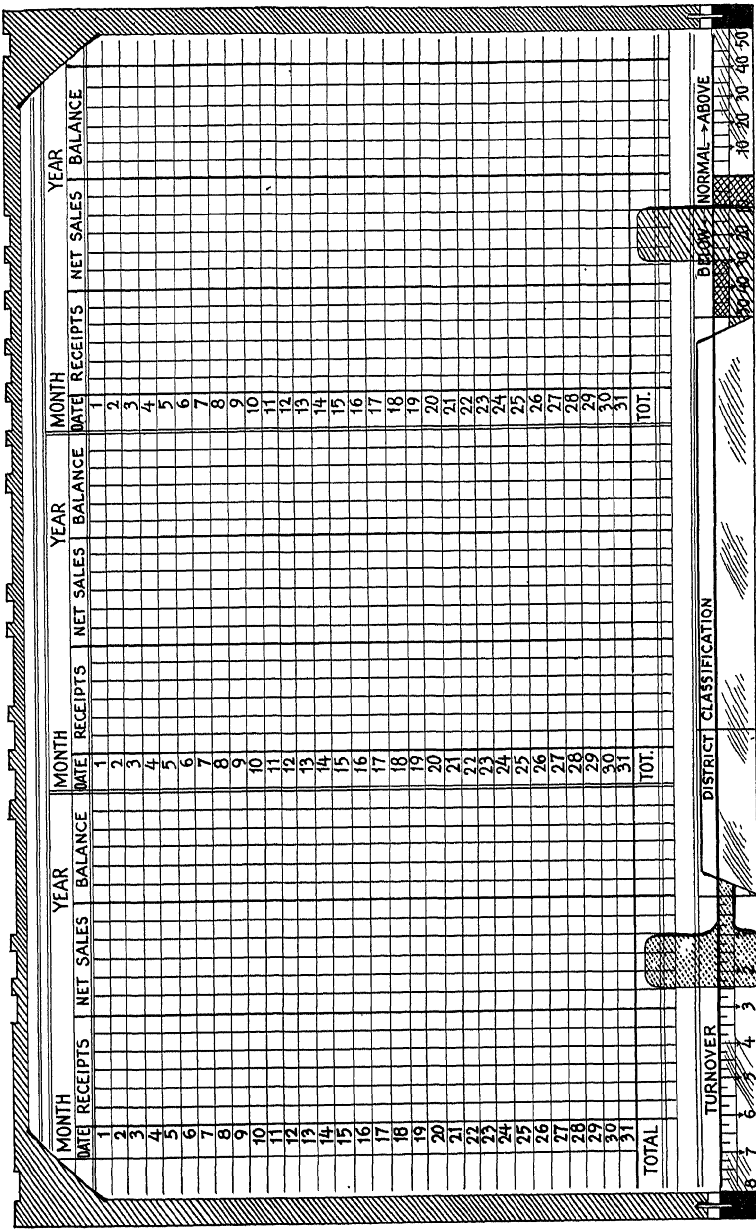

Figure 15. Form of Statistical Inventory Record (Courtesy of Systems Division, Remington Rand, Inc., Buffalo, N. Y.)

which mark-ups do not fluctuate materially and to items in a given department or classification which do not vary greatly in sales volume or in mark-up percentages. Since it shows activity of stock by *departments* it fails to indicate the movement of individual items, which is essential to real control. Furthermore, it provides only a value record without information as to units or quantities.

Purchase Record System of Control.—The purpose of a purchase record plan, which can hardly be called a system of stock control, is to afford a clue for estimating roughly the quantities of merchandise on hand, the frequency of placing orders, and the amount that should be ordered at given intervals. The system is flexible; it can be kept for short periods only, during which it is desired to check on the activity of certain goods such as those that have been suspected of inactivity; or continuously for all goods, or for some important items. The

Article	Brand	Size	Number
Location	Inventory:	Date Date	Quantity Quantity

Date Ordered	Quantity Ordered	Date Received	Quantity Received	List Price	Discount	Delivered Cost		Unit Cost

Total Quantity Purchased____________

Frequency of Purchases____________

Figure 16. Commodity Purchase Record for Inventory Control

purchase record may consist of a card similar to that shown in Figure 16, one for each commodity, or on the basis of manufacturers from whom supplies are obtained. The stock may be counted at frequent or infrequent intervals. The record reproduced in Figure 16 is usually maintained for a period of six months, a physical inventory being taken at the beginning and at the end of that period. In examining the relationship existing between the date orders are placed and the date the goods are received, and these in relation to stocks on hand at the beginning and at the end of the period, it is possible to determine how often orders for the item should be placed and for what amount.

This method may sometimes be used as the sole guide to a buyer in purchasing. It is particularly adapted to firms or departments handling non-technical, staple articles, and to merchandise that is handled in comparatively large amounts but sold in small lots of little value. Under these circumstances a real perpetual inventory is either not essential or too expensive to operate. The purchase record is used as an alternative to some of the continuous physical inventory methods of control.

Real Perpetual Inventory.—A real perpetual inventory is a continuous record of every item in stock, showing receipts, withdrawals, and balance on hand. It is a running balance showing the amount on hand at all times of each item in stock. The principle underlying it is relatively simple: goods on hand at the beginning of the period, reckoned in physical units, plus goods purchased, less goods sold, brought up to date currently, equals stock on hand. The application of this principle, however, is far from simple, for in the average wholesale house there are great varieties of merchandise for which the individual posting by item demands much more than receipts, withdrawals, and balance on hand. If a modern system is installed which provides for all the essential information on one record, it is also necessary to post orders placed, cancellations, purchases returned to manufacturers, returned goods from customers, exchanges, and so on, in order to arrive at correct figures of additions to or withdrawals from stock. This requires not

only clerical work for maintenance of records, but also calls for a routing through the stock record room of many forms from which the postings are made. The preparation of an extra copy of some of these forms may be needed in order to expedite their movement through the house.

The data for the real perpetual inventory records are obtained from various sources. Information on orders placed is taken from copies of purchase orders. If any of the goods ordered are cancelled, a copy of the letter or order requesting the cancellation is sent to the stock record room. If no extra column is provided for this information, cancellations are recorded in red ink below the purchases to which they apply and are deducted. Actual receipts are recorded from copies of receiving reports or from copies of invoices. If goods are returned to a vendor a copy of the returned goods order or debit memorandum, as it is sometimes called, is furnished the stock clerk for entry in red ink below receipts, unless a special column is set aside for such postings. Sales are posted from sales orders either before or after the orders have been approved for credit, and either before or after they have been filled, depending upon whether a strict or lenient credit policy is followed by the house, and whether the firm experiences many outs and makes substitutions. If there is a possibility of orders being held up for credit investigation they should first be handled by the credit department and afterwards by the stock record clerk. Similarly, if goods are always in stock and substitutions are not practiced to any extent, the sales orders may first be routed through the stock record room and then to the shipping department for filling. If goods are returned by a customer, a receiving report or credit memorandum is sent to the stock record clerk for entry in red ink in the sales column.

The routine of posting sales presents a considerable task, especially when there are a large number of small sales which multiplies the number of entries for a given item and entails heavy expense. The usual method is to post one item at a time from sales orders or from copies of customers' invoices. A given product is chosen and all orders or invoices containing that item are sorted together and the item posted. The same

procedure is followed until all items are entered. Another method is to record the first item on each invoice or order, then the second, and so on. All one-item orders are thereby eliminated in the first run and the two-item orders on the second. A third way is to prepare a tally sheet on which the total quantity of each item sold during the day is listed; from this the postings are made to the stock records in totals only. Still another method is the use of unit posting slips for each item sold. These are sorted together at the end of the day, added up and one total posted in the record.

Because of the complexity of application, the perpetual inventory method of stock control is not adapted to all kinds of wholesaling or to all kinds of merchandise in a given wholesale concern. Such an inventory is most practical:

1. When seasonal goods or style merchandise are involved, the purchases of which require exact knowledge of quantities sold during similar seasons in preceding years for the purpose of gauging requirements for the current season.
2. When the goods are of a technical nature and it is absolutely necessary to have on hand, for immediate delivery, whatever may be demanded by the trade. If continuous records are not maintained, the possibility of running short of some items and overstocking in others is too great. This is particularly true of industrial distributors, electrical supply concerns, hardware firms, and wholesale houses handling automotive accessories, replacement and repair parts to machinery.
3. When the line of merchandise is not adapted to frequent stock taking and yet unit control is desired. This would be true when the number of items handled is large, but the quantities of each are relatively small and require careful weighing or measuring or other close scrutiny to ascertain the amount on hand.
4. When the merchandise has a relatively high unit value, as is the case of ready-to-wear apparel, furniture, high grade jewelry, mechanical refrigerators, radios, washing machines, rubber tires, and batteries. The expense of

posting such items on stock records would be relatively small when compared to the value involved.

5. When the number of products handled is relatively small, so that the task would not be too burdensome and costly, although wholesalers handling as many as 60,000 items are known to maintain a real perpetual inventory system because the technical nature of the goods demands it.
6. When sales are made in substantial quantities, even though the goods are of a low unit value, making the number of postings reasonable. Concerns, whose stocks are active but average sales are small, would probably find the cost of posting and maintaining the necessary equipment and records more or less prohibitive.

One essential feature of a real perpetual inventory is that a separate record should be maintained for each item in stock. Some wholesalers find this too expensive and yet see the value of unit control on a continuous basis. Consequently, they combine several items on a single card or sheet, thereby reducing both installation cost and the expense of posting. A dry goods wholesaler, for example, may post on a single record all hosiery of a certain size regardless of brand, price, color, or shade; or a record may be kept for hosiery of a certain quality or brand irrespective of size, color, or shade. This is a modified and not a true real perpetual inventory, which loses much of its effectiveness. Another point which is desirable is that *quantity ordered* and *balance on order* should be shown. Probably the most significant feature, however, is that showing quantity received, sold, and balance on hand. To prevent overstocks, the record should provide for the establishment of an ordering point for replenishment. When to place an order for a given item, and the number of weeks' supply to order is determined largely by a planned turnover program. Space also should be allowed for the cost price of each item, and finally, for a monthly recapitulation of sales for the preceding and current years, respectively, which presents a valuable barometer of fluctuations in sales, seasonal, cyclical, or those due to changes in the design or style of the commodity. The form shown in

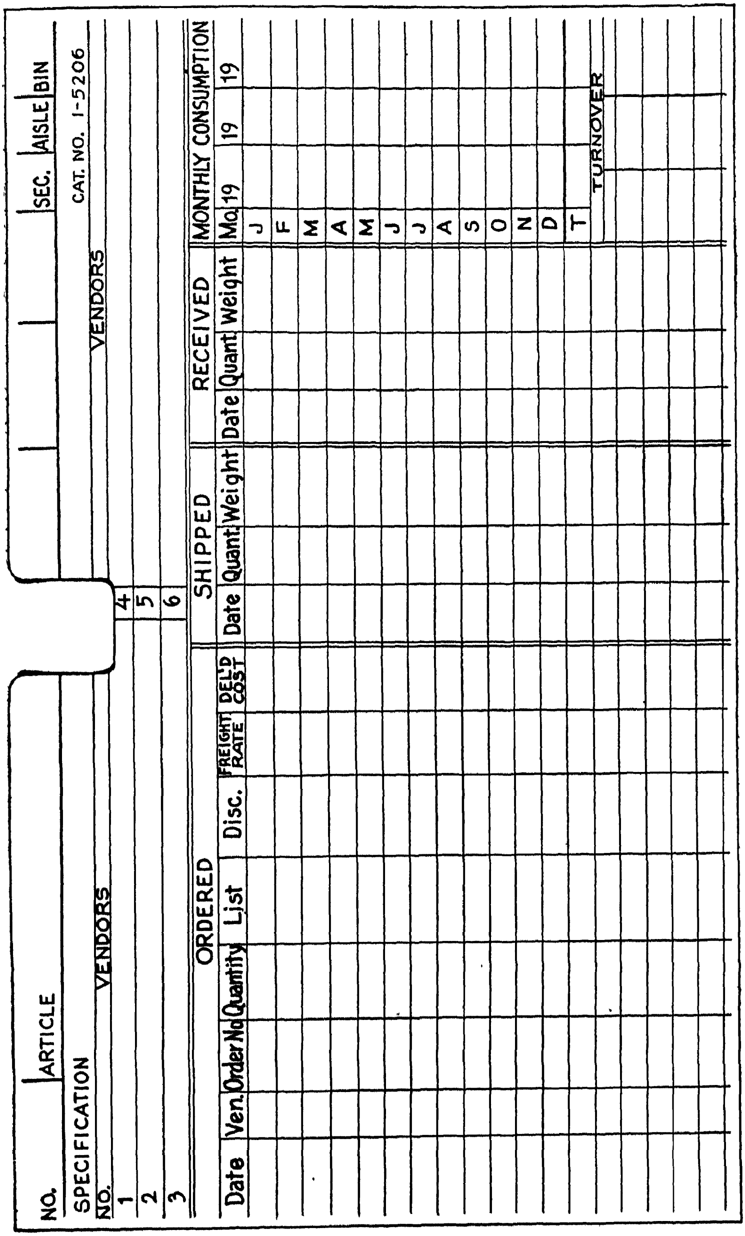

Figure 17. Form of Real Perpetual Inventory Record

Figure 17 illustrates these basic points, and, in addition, provides for information on sources of supply showing vendors' names and addresses, on the turnover obtained, and for a complete description of the article, its stock number and location.[1]

Numerous signalling systems have been devised to show how many weeks' or months' supply of stock there is on hand, when the predetermined minimum has been reached, when seasonal items should be bought, how much of an overstock condition exists at any given time, when an order was placed, what items are out of stock, when the last sale of a slow-moving item was made, and other points of information. While some method of signalling is useful in guiding buyers, it is easy to overdo it and attempt to supply so much detailed information that the personnel becomes enslaved to the records.

Virtually hundreds of stock record forms have been specially designed for different wholesalers to suit varying kinds of business, scales of operation, degrees of specialization, types of customers served, personnel peculiarities, and sums available for the installation. To work out the best system for a given wholesale house, common sense and good judgment are essential, and records are no complete substitute for either.

[1] For a detailed description of some of these record forms and their uses, see "Stock Record Control" approved by the National Standard Parts Association, Systems Division, Remington Rand, Inc.; "Straight to the Heart of Stock Control for Wholesalers" and other publications by the same company, as well as publications by similar organizations.

CHAPTER 19

ADVERTISING AND SELLING

Selling has always been one of the important functions of the wholesaler, but more emphasis has been placed upon it in recent years. Competitive conditions and other factors have so affected the wholesaler of today that considerable effort is required to assure a continuous flow of his goods to his customers and through their places of business to the ultimate consumer. Approximately one-third of all operating expenses of wholesalers is directed toward accomplishing this end.

The two principal means of promoting sales and securing the repeat business upon which the wholesaler largely depends, are advertising and personal salesmanship. Both forces are closely interdependent. The main purpose of advertising by wholesalers is not so much to secure business directly as it is to break down sales resistance and to pave the way for salesmen. To secure continuous business, customers must be constantly reminded of the various motives, buying and patronage, which the wholesaler has succeeded in arousing. Moreover, new and varied appeals must be constantly presented to support and increase sales volume which can best be consummated through personal salesmanship and direct contact with customers and prospects.

Advertising

Relation of Advertising to Personal Selling.—In comparison with personal selling, the amount spent by wholesalers for advertising is small. According to the data shown in Table 22, for many lines of business it is but one-tenth or less than the sums expended for personal selling. This is true for 18 out of the 24 lines of business for which such data are shown in the table. Moreover, in seven instances wholesalers spent 20 times or more on total selling expense other than advertising, than

they did on advertising. This is at once an index of the relative importance of the two forms of sales and promotional activity and perhaps also of the neglect of wholesalers to take full advantage of the modern force of advertising.

The wholesaler appears to be in a peculiar position on the score of use of advertising. He is not like the manufacturer who advertises chiefly to gain recognition, preference, or insistence for his own products, nor like the large advertisers in the retail field, such as department stores and specialty shops, who deal principally in style goods or in merchandise for which frequent price appeals are desirable. His stock in trade is primarily a large variety of parallel lines for which it is not wise to advertise aggressively since such sales effort would tend only to shift buying habits from one brand to another, and not necessarily increase his total sales. Consequently, wholesalers have assumed the rôle of distributors, leaving to the manufacturer the task of creating demand for his products, and even that of advertising the wholesaler as an economical link in the chain of distribution. The small amount of consumer advertising done by the wholesaler is designed to support his private brands for which he has assumed commercial responsibility. The bulk of the wholesaler's advertising is directed to retailers and industrial users rather than to the ultimate consumer, and is confined to catalogs, circulars, and other direct mail literature, and to a little advertising in trade papers.

The Advertising Appropriation.—There is, however, a growing tendency for wholesalers to increase their advertising appropriation, partly because of the ascendancy of wholesalers' private brands, which are increasing both in number and variety. Moreover, many wholesalers have exclusive agency arrangements for the distribution of certain products and share the responsibility for advertising them with the manufacturer. Over and above these specific uses for advertising, wholesalers are commencing to appreciate the value of advertising as a force in keeping down distribution costs or in increasing sales volume; they are beginning to realize that they have other things to sell besides their products, such as their services, reliability,

TABLE 22. EXPENDITURES INCURRED BY WHOLESALERS DURING 1934 FOR ADVERTISING AND PERSONAL SELLING[a]
(Net Sales = 100%)

Line of Business	Number of Firms	Total Operating Expenses	Advertising Expense	Total Selling Expense, Less Advertising
Automobile Parts and Accessories	104	29.74	0.75	11.90
Bakers' and Confectioners' Supplies	17	17.46	.28	5.92
Beverages	28	33.67	2.13	9.00
Boots and Shoes	10	15.62	.54	6.34
Building Supplies	17	24.03	.40	6.96
Cigars, Cigarettes, and Tobacco	35	7.16	.14	2.53
Coffee and Tea	16	33.15	1.71	9.58
Confectionery	39	20.78	.23	7.02
Drugs	20	14.20	.22	4.19
Dry Goods	31	16 10	.57	7.63
Electrical Household Appliances	14	18.33	.92	7.39
Electrical Supplies	33	23.89	.61	6.00
Fruits and Vegetables	62	19.08	.37	6.34
General Merchandise	15	14.38	.50	6.21
Groceries	207	9 29	.39	3.13
Hardware	38	18.87	.40	6.67
Jewelry	16	26.15	.84	8.73
Lumber	25	21.04	.49	6.32
Paper	10	23.24	.17	7.93
Paper and Paper Products	35	22.55	.42	8.33
Petroleum Products	68	33.36	.74	15.53
Plumbing Supplies	38	24.55	.27	8.45
Tires and Tubes	12	20.61	2.06	7.55
Wines and Liquors	42	19.41	.68	6.01

[a] Based on data presented in "Manufacturing and Wholesale Surveys," Research and Statistical Division of Dun & Bradstreet, Inc. In computing the percentages for this table it was necessary first to convert the percentage figures given, which are shown separately for firms reporting a net profit and those reporting a net loss, into dollar amounts, and then to divide the sum of these amounts by the sum of the dollar volume of business for the respective types of concerns. Where the number of concerns reporting is small and the sample inadequate, the data should not be regarded as typical or conclusive.

completeness of stock, or other institutional features; they see that there is need for acquainting the public as well as the retailer and manufacturer with the economics of wholesaling in order to dispel numerous misconceptions now widely held concerning the wholesaler.

Complete data for identical houses in the wholesale field are not available over a long period of time to determine with accuracy the trend in advertising expenditures. Limited statistics are extant, however, for wholesale grocers in Ohio over

a period of nine years, from 1926 through 1934. These data were collected by the Bureau of Business Research of Ohio State University as part of their annual studies of operating expenses for Ohio wholesale grocers. For the 22 firms reporting for 1926, the average amount spent for advertising was .09% of their net sales, but for 1934 the 34 concerns reporting had an advertising expense of .36%, an increase of 300%. For 1927 the advertising expense was .11%; for 1928, .18%; for 1929, .10%; for 1930, .14%; for 1931, .30%; for 1932, .25%; and for 1933, .26%.

Many factors enter into the determination of the size of advertising appropriations made by wholesalers. Among them are the nature and variety of goods handled, volume of sales, extent of private brand merchandise, territory covered, exclusive agency representation, degree of selective distribution, and the general value attributed to advertising. Sometimes no special amount is set aside for advertising, each attempt at sales promotion being handled separately and on its own merits. When an appropriation is made in advance for the ensuing fiscal period, which is the usual procedure, one of several methods is followed. A certain part of the past year's sales or profits, gross or net, may be devoted to advertising. A similar method is to set aside a percentage of anticipated sales, gross or net, for the coming year. A third plan is to follow the example of competitors. If it is customary in the trade to issue catalogs or to use billboards, deviations may be undesirable and advertising may be used more for protection than as a constructive selling force.

Occasionally, an arbitrary amount is set aside for advertising, without much regard for past and future sales, or the activities of competitors. Usually it is about the same amount as has been spent for the preceding year. When this procedure is followed, there is a tendency to curtail the appropriation for advertising when it is most needed, as in times of depression. The feeling is that the firm cannot afford to advertise, but this attitude is as unscientific as is the determination of an arbitrary sum for sales promotion. When a firm believes in the value of advertising it may follow an opposite plan, and put all the

money it can obtain into advertising, and steadily reinvest a part of its profits in that fashion, on the assumption that the percentage of selling costs decreases as the amount spent for advertising increases.

Probably the best way of ascertaining how much to spend for advertising is by a combination of the above methods. The task to be accomplished should be first defined, the competitive and other conditions surveyed, and the possible advertising media determined. Past experience should be relied upon, but changes in policy, anticipated increases or decreases in sales volume, expected changes in business conditions, and anticipated sales resistance must also be taken into account.

Nature of Advertising and Sales Promotion.—Careful choice of advertising media is essential to maximum effectiveness. These media may be national, sectional, or local; direct or indirect. Few wholesalers resort to national or even sectional advertising because of their limited trade territory. Among the indirect media used are trade papers, newspapers, billboards and posters, street car cards, programs, directories, motion pictures, and radio broadcasting. The direct media comprise catalogs, circulars, letters, price bulletins, house organs, booklets, and dealer-helps. Most of the advertising is directed to the trade rather than to consumers. For example, about 85% of the advertising by furniture wholesalers in the Gulf Southwest is directed toward the trade, and consists principally of catalogs. Likewise, the publicity of the floor covering wholesalers in the same territory was trade advertising, about 55% being used for catalogs and the remainder for direct-mail advertising.[1] Practically all of the advertising of 86 hardware wholesalers in the same area was limited to the trade and consisted mainly of catalogs issued on the average once every four years, followed by trade papers, newspapers, and direct-mail literature.[2]

One of the most important ways of sales promotion is through dealer-helps. While the average retailer may excel in some of the tasks he is required to do, he cannot be expected to

[1] Domestic Commerce Series—No. 76, p. 35, 1933.
[2] Domestic Commerce Series—No. 52, pp. 94-95, 1932.

be an expert advertiser, salesman, trainer, window-display man, credit man, accountant, as well as buyer and general manager of his store. There is, therefore, great need for a central location where ideas can be gathered and made available in usable form. The wholesaler furnishes such a central and focal point.[3] Among the important aids thus rendered are advice and assistance on store layout, stock arrangement, special promotional events, preparation of advertising copy, formulation of policy, financing the enterprise, pricing goods, budgeting, window trimming, counter displays, preparation of price cards, as well as assistance with other management problems. Some wholesalers have organized finance companies to handle the retail merchant's instalment paper; others conduct demonstrations on the customer's premises in the sale of certain goods; still others operate complete sales promotional or business service departments from which much assistance can be secured by the customer. Some few wholesalers have gone so far in this endeavor as to employ field supervisors who inspect customers' stores periodically and make and follow up specific recommendations. This is a service analogous to that rendered by chains to their retail units and is based upon an appreciation on the part of both wholesaler and retailer of their close interdependence.

Selection and Training of Salesmen

The Selling Task.—Much more important to the wholesaler than advertising as a means of sales promotion is personal selling by means of salesmen. The first step in the selection of salesmen for a wholesale house is to make an accurate and detailed analysis of the duties which they are called upon to perform. Consciously or unconsciously every sales manager has a prescription for the kind of men he wants. He should, therefore, prepare a job description indicating the kind of position available, duties required, how they are to be performed, and the qualifications of the candidate which are essential to effective performance. Such an analysis will lead to better methods

[3] See S. Carter, "What Dealers Put Into a Wholesaler's Question Box: A Guide to the Kind of Helps Retailers Want These Days," *Printers' Ink Monthly*, Oct., 1933; and J. C. Wingate, "Services Performed by Wholesalers for Their Retail Accounts," *Journal of Retailing*, Jan., 1935.

of selection, training, supervision, compensation, and promotion. In addition to direct selling duties, a wholesaler's salesman must perform a number of non-selling functions including the securing of credit information, collection of due and overdue accounts, handling of claims, making adjustments, winning over disaffected customers, checking mailing lists in his territory, helping dealers in ways previously indicated, and preparing reports for officials of his company. In recent years the function of the wholesaler's salesman has become one of selling merchandise *for* his customers rather than *to* them; he has in a sense ceased to be a salesman and become a sales manager for his trade.

To perform these duties and to sell goods effectively on a continuous basis, the wholesaler's salesman must possess a composite of characteristics known as personality which enables him to create and maintain a good impression upon buyers and prospects. He must enjoy good health and follow correct habits of life. This is particularly true of traveling salesmen whose duties are exacting and strenuous. The salesman must be a person of good character, including such qualities as veracity, reliability, self-control, fairness, loyalty, sincerity, decency, and sobriety. In the absence of these characteristics, a salesman's sporadic brilliant achievements may be offset by losses during periods of aberration. To these characteristics must be added a good measure of business sagacity. This implies an ability to grasp the significance of circumstances, to understand facts quickly and to discuss them with thoroughness, foresight, and mental alertness. Adequate education is essential in a good salesman. This is rapidly coming to mean a college education, since so many customers have had that opportunity, although equivalents in experience and self-education may be equally good.

Other qualifications that are more or less taken for granted relate to tact, punctuality, initiative, resourcefulness, concentration, executive ability, self-confidence, and knowledge of the goods, his firm, its policies, and human nature. Most of these qualities can be developed through training, others are perhaps more fundamental and inherent. Practical experience in selling

is occasionally required of a candidate for a sales position, and some attention is given to his marital status, age, voice, size, and the like. The entire process of determining the attributes essential to success in selling for a wholesale house is changing and in need of exhaustive scientific study.

Selecting Salesmen.—Salesmen may be secured by a wholesaler from several sources. One of the principal sources is the firm's own organization. Men thus chosen can be watched during their period of employment in other capacities and only those who seem to possess desired qualifications promoted. These men are presumably familiar with the house, its policies, the managing personnel, and most important, with the merchandise. Stockmen and order fillers or young office employees are frequently promoted to sales positions. These men usually have "sticking" qualities, thereby reducing sales force turnover and the cost incident thereto; they are also as a rule loyal to the house and regular in their work.

Probably the next most important source for wholesalers' salesmen is competing concerns. Salesmen hired away from competitors are already trained in most aspects of the business and, if assigned to the territory which they previously cultivated, they may divert trade from their former employers. Some wholesalers refrain from hiring competitors' salesmen because they may have much to unlearn and many acquired habits to alter, because they sometimes may take advantage of their new position and seek further advances in remuneration, because they can usually be hired only at advanced figures, or because the practice is regarded as unethical unless the salesman had first severed his connections with the old employer.

Among the other methods of recruiting salesmen are newspaper classified advertising, advertising in trade publications, local employment agencies, colleges of commerce, and other organizations. Individuals sometimes voluntarily apply for sales positions. Retailers who have failed in business for reasons other than inefficiency may constitute promising candidates because they are familiar with the retailer's problems, provided, of course, that they also possess a minimum of sales ability.

Finally, the aid of the company's own sales force may be enlisted. Knowing approximately what qualifications are required, the company's salesmen may choose likely candidates from among their friends and acquaintances.

In the selection of salesmen, personal impressions and snap judgments still prevail. Some sales managers have gone to the other extreme and succumbed to the influence of self-styled character analysts, phrenologists and physiognomists. The "pseudo-scientific" tests designed by these people have proved worthless. The most effective methods are still confined to personal interviews, application forms, rating scales, and valid psychological tests. The personal interview gives the sales manager an opportunity to size up the applicant's personality, knowledge, and other pertinent qualifications. This interview can be effectively supplemented by a rating scale on which the characteristics are arranged either alphabetically or in order of their importance. A value is assigned to each characteristic on the basis of the company's experience, thereby diminishing guesswork. Application blanks which may be filled out before or after the interview are an aid in reaching a decision. They disclose certain characteristics and give an idea of the applicant's experience, education, and accomplishments. Psychological tests have long passed beyond the experimental stage and are now in wide use for a variety of purposes, but relatively few wholesalers have resorted to them in selecting salesmen. Finally, it is important to check references given by the applicant. Sometimes a salesman can be chosen almost entirely on the basis of recommendations of references known to be impartial and shrewd judges of a person's qualities. Some firms are known to have hired employees from among college graduates on the basis of a professor's recommendations.

Training Salesmen.—The old belief that salesmen are born and not made is now recognized as generally unsound and fallacious. It is rapidly giving way to a realization that a competent sales force can be built through correct training. While it is essential for would-be salesmen to possess certain innate qualities such as those discussed above, the ability to sell can

demonstrably be developed by appropriate training. Under all circumstances, newly hired salesmen should be trained in order that they may acquire necessary knowledge in the shortest possible time, and substitute the experience of others for their own "trial-and-error" means of learning. A training course should necessarily deal with the company's organization and policies, products handled, trade to be cultivated, selling methods that have been found successful, and the selling and non-selling duties which salesmen will be called upon to perform.

The most common method of training in use by wholesalers is to require the new salesman to spend a certain period of time in the house where he can browse around, observe conditions, and ask questions. After he has accumulated a rudimentary knowledge of some of the points enumerated above, he is assigned to an experienced salesman, whom he accompanies on a regular route. If the older salesman uses correct methods, and has the analytical ability to discover and correct faults properly, the training of the novice may prove entirely satisfactory. Of the more formal and systematic methods of training salesmen there is a great variety. Some require only practice, others combine practice with study and lectures. Training may be given in concentrated courses of study and lectures or in the form of continuous service or training "on the job." Whatever the course of training, it is advisable that it be carried on in a natural environment. The manager's office is an appropriate place for a discussion of the organization and its policies, while the best setting for instruction in soliciting orders is in the field and given by an experienced salesman. After the fundamentals of the subject have been covered in lectures and assignments, the problem method of approach is highly desirable to supplement the statement of principles. Quite frequently the manufacturer acts as a clearing house for sales ideas on his as well as other lines of merchandise. Some of them have even developed complete courses of study along these lines for the benefit of the wholesalers.[4]

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[4] E. E. Potter, "Training Jobber Salesmen to Manage Their Own Territories," *Sales Management*, Apr. 18, 1931.

Compensation of Salesmen

Characteristics of a Satisfactory Compensation Plan.—To the query of the student as to what is the best plan for paying salesmen there is but one reply, namely, that there is *no* one best method for universal application. Practically every plan in use has its elements of strength, and each may be satisfactory under appropriate conditions. For any one enterprise an ideal plan can be discovered only after careful study of specific conditions and requirements such as the nature of the goods, method of operation, and specific tasks required of salesmen. There are, however, certain attributes which every compensation plan must possess. It must provide adequate remuneration to enable the salesman to maintain a reasonable standard of living considering his general social status. It must be simple enough so that the salesman will understand it, and a minimum of clerical work will be required for computation. It must be fair to both salesman and employer at all times. It must be proportionate to results accomplished, so that superior salesmen will be compensated more than those who have failed to achieve similar results. It should provide for a prompt reward and promotion. Lastly, it should make provision for sales impulses at frequent intervals.

Salary Plans of Compensation.—Plans of compensating salesmen in use by wholesalers vary widely. The more important of them are: straight salary, commission on sales, commission on gross profit, sliding commission, salary and commission, salary and group commission, salary and departmental commission, bonus plans, and profit sharing systems. From this list it is apparent that the salary or commission plans predominate, although there are many variations and modifications of both.

The *straight salary plan* is the simplest method, salesmen are assured of a certain income, they are relieved of anxiety, the house has more control over its sales force, and much more promotional work can be done through salesmen. Furthermore, it is more difficult for a competitor to hire away a salesman who is on a straight salary, and the plan does not present to the employer any serious problems of adjustment during times of de-

pression or in periods of inflation. The straight salary plan has the disadvantage that it limits a salesman's earning power over short periods of time, it fails to furnish the incentive to push sales or to concentrate on new and hard-to-sell items, and it is open to charges of favoritism. Unless the salary is frequently revised there is a tendency to overpay poor salesmen and underpay good producers. Then there is the perennial question of whether *efforts* or *results* should be the basis for fixing a salesman's salary, since the salary is fixed at the beginning of the year, in ignorance of the sales volume that would be obtained during the year. In times of stress there is also a tendency to discharge salesmen rather than reduce their salaries, for fear of resentment and disruption of the force, when its loyalty and aggressiveness are most needed. Because of these weaknesses of a straight salary plan of paying salesmen, the salary is often combined with the commission on sales method in order to minimize the bad points of each and, at the same time, retain the good features of both. When this plan is used, a fixed salary is agreed upon, with the understanding that sales shall constitute a certain multiple thereof and a specified commission is paid on all sales in excess of this figure.

Commission Plans of Compensation.—The *straight commission on sales* is used when all goods yield substantially the same amount of profit. Under this plan there is a constant incentive for the salesman to be alert, extra exertions are immediately rewarded, there is no limit on a salesman's earnings, the ratio between sales force expense and sales remains constant, unprofitable salesmen eliminate themselves, and the plan is very simple to operate. On the other hand, the sales manager has less control over his salesmen who are paid according to results, the plan places a premium on sales *volume* rather than *quality* sales, immediate results are stressed, prospects are not cultivated intensively, there is a tendency to *high spot* the territory, and when permitted to vary prices the salesman is prone to quote the lowest price in order to secure the business and his commission.

Some wholesalers combine the *drawing account* with the *commission plan* of compensation, which is in one way a loan

against commission yet unearned while in another way it resembles a minimum salary, particularly when the drawing account is guaranteed. The purposes of the drawing account are to help the salesman to finance himself between pay days, and to provide a minimum income.

Commissions may be figured on *gross profits* instead of net sales, that is, each salesman's commission is figured on the gross profit obtained from his own sales. This tends to direct his attention to the goods producing the highest margin. It also prevents a salesman from quoting the lowest prices to customers or from pushing loss leaders and items bearing narrow margins. However, this plan requires a substantial amount of clerical work, is difficult to understand, and is open to charges of manipulation.

The *sliding commission plan* of paying salesmen increases the rate of commission with the volume of business. Ordinarily, a quota is established on which the standard rate of commission is based. All excess sales are divided into steps of equal size or interval, with an increased rate of commission for each step or graded increase in sales. Sometimes sliding commission scales provide lower rates for successive increments in business. This plan of compensation seems to be well adapted to one-sale specialty goods, but is not particularly suited to the wholesaling field generally. The advantages inherent in this plan are that the salesman is strongly motivated to push sales since he is practically in business for himself, the unprofitable salesman eliminates himself, and sales cost is low for small volume. A variation of the sliding commission plan is the *stepped commission* method, where a certain quota is set on which the salesman receives a given percentage. For the next step of, say, $10,000 in sales, he receives a somewhat higher rate of commission, and on the following step of, say, $5,000, he secures a still higher rate of compensation.[5]

If the wholesale firm handles a large variety of products whose margin of profit varies considerably and in the sale of which varying degrees of effort are required, a *salary and group*

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[5] L. Lothrop, "How to Find the Best Method for Paying Your Salesmen," *Sales Management*, Dec. 14, 1929.

commission plan is most useful. Under this plan, a salesman is guaranteed a minimum salary which constitutes part of the commission, the rate of which varies with the kind of merchandise sold. For this purpose, the merchandise is divided into certain classifications or groups and a commission rate fixed on each, usually varying directly with the gross margin earned. Such adjusted commissions help move sluggish items, and may be the only means of getting salesmen to introduce new lines of merchandise.[6] A modification of this plan is the *salary and departmental commission* method where the varying rates of commission are fixed by departments instead of other merchandise groups.

Bonus Plans and Profit Sharing Systems of Compensation. —The plans of compensation discussed in preceding paragraphs may sometimes be supplemented by a *bonus,* which is a payment made annually or semi-annualy in a lump sum as a means of augmenting the salesman's income, the purpose being, of course, to stimulate salesmen to greater effort. The bonus may be based on sales, net profits, or some other criterion, or may rest on the discretion and judgment of the management. Usually, bonuses are based on certain achievements and upon completion of certain prescribed tasks. If a point system is used to determine the bonus, a given value may be assigned to each of the tasks, with penalties imposed for failure to accomplish certain requirements.

Profit sharing plans have as their major objective that of unifying the interests of salesmen and the organization, and the development of loyalty and initiative. Usually, they have not worked out satisfactorily, except as supplementary means of compensation, because net profits are affected by many factors beyond the salesman's control. If the plan also involves a sharing of losses, salesmen are unable and unwilling to bear their share. These methods of compensation gained some headway during the nineteen twenties, but the years of depression that followed gave them such a setback that it may take many years for them to regain their former status.

[6] "Adjusted Commissions Help Move Slow Movers," Ed., *Printers' Ink,* Feb. 14, 1935.

Salesmen's Expenses.—Traveling and other expenses incurred by salesmen in line of duty are an integral part of a compensation plan for a wholesaler's sales force. They may represent over one-half of the salesman's compensation. Some concerns include the item of expense in the salary or commission; others include a fixed allowance, payable at definite intervals; while another plan is to reimburse salesmen for expenses actually incurred. The first procedure eliminates the necessity for expense reports and the amount used for the purpose is likely to be smaller than when the firm pays expenses as incurred. Skimping on expenses, however, may prove disadvantageous and salesmen may fail to cover their territory adequately. It is also difficult to determine what part of the compensation should be allowed for expenses, since salesmen's expenses do not necessarily vary with the volume of business secured. The third method necessitates extra reports and vouchers, but it gives the sales manager more control over his force. They can be directed to visit communities or customers that are relatively inaccessible, to live and travel in a manner determined by the company, and to carry out plans which require large expenditures. Salesmen's expense problems are multiplied by the use of automobiles. If salesmen use their own cars for traveling, the company may pay all expenses as reported, it may compensate them on a mileage basis, or may make a flat weekly or per diem allowance. If the company furnishes the cars, the problems of depreciation, use of the car for personal purposes, cost of operation, repairs and upkeep must be faced.

Sales Planning and Supervision

The Meaning of Sales Planning.—A certain amount of planning of anticipated sales is indispensable, whether the firm operates strictly on a budget basis or controls its operations informally. Comprehensive and accurate information on expected sales volume is of utmost importance in the control and internal management of every modern wholesale establishment, for such knowledge is used as a basis for the proper determination of desired inventories, purchases, sales and promotional

activity, and financial management of the business. The primary motives for a planned sales program are to establish a gauge or guide for executive control, to devise a predetermined mode of action, and to set a selling pace for salesmen in the field.

The first problem in planning sales is a determination of the total volume of business that is expected for the entire firm. In arriving at this figure such factors as the following must be considered:

1. Volume of sales for the similar period in the preceding year. This furnishes the springboard from which deviations, in the form of increases or decreases, are calculated.
2. Secular trend of the enterprise, or extent of its progress or retrogression from year to year, based on the experience during several years immediately preceding.
3. Anticipated general business conditions in the ensuing period covered by the estimate. Effects of a cyclical nature must be given careful consideration as well as those resulting from such natural phenomena as floods and droughts.
4. Extent of competition that might be expected, whether it is abating, growing, or remaining constant in the territory cultivated.
5. Reduction, if any, in items carried during the preceding similar period, and the effect of such action upon expected volume of sales.
6. Addition of new items or lines of merchandise since the last similar period and the expected increases in volume that may be attributed to them.
7. Significant changes in sales policies, such as an increase or decrease in the advertising appropriation since the preceding similar period, a modification in the method of compensating salesmen, and the like.

The principal factors listed above are naturally modified and tempered by the financial requirements of the sales program and by the effect of changed volume upon the cost of doing business. The second problem in the formulation of a sales plan is a divi-

sion of the total expected volume of sales into the principal classes of markets. In the ordinary wholesale house it means a division into city and country sales, the latter referring to business secured from customers located outside the city in which the wholesale establishment has its situs. This separation can be established on the basis of the ratio obtained in the past between sales in the two types of markets, modified, of course, by their respective market potentialities. If the wholesaler operates over an extensive area, it may be advisable to divide the territory into a number of districts and allocate the anticipated volume by these districts. Total city and country sales, respectively, must next be divided into merchandise departments. The final step is the determination of what part of the total volume of sales, by merchandise lines, is to be expected of each individual salesman in a given territory. Ratios established by past experience are very helpful. Quotas thus set for each salesman enable the salesmen to know in advance how much business each is expected to produce and the approximate proportion of that business which should be produced in the more important lines of merchandise. A system should also be provided whereby salesmen may be informed at intervals of their progress so that they may gauge the amount of exertion necessary to achieve desired results.

Sales Supervision and Control.—The need for sales supervision and direction is so apparent as to require little elaboration. Even experienced salesmen need such help; up-to-date facts should be supplied, as well as continuous training, since new and improved methods of selling are being constantly evolved. Because the wholesaler's salesman usually operates at a distance from his house and always more or less independently, supervision is necessary to correlate his efforts with those of his firm. Furthermore, a salesman should be kept in close touch with headquarters since conditions change rapidly, prices are revised, new lines are added, and old lines dropped. Finally, no salesman is likely to work to capacity if he is not supervised and stimulated by a superior, for self-imposed pressure is seldom as consistently productive as that emanating from the home office.

THE AMERICAN SUPPLY CO.
LANSING, MICH.

SALESMAN'S ROUTE SHEET

Week beginning______________I shall make the following towns on the day, date and in the order named below. (Signed)______________

DAY	DATE	TOWN	DAY	DATE	TOWN

My address each day will be as follows:

DAY	DATE	TOWN	CARE OF
MON.			
TUES.			
WED.			
THURS.			
FRI.			
SAT.			
SUN.			

COPY OF THIS REPORT MUST REACH US FRIDAY MORNING PRIOR TO THE WEEK FOR WHICH IT IS MADE.
☞ KEEP A RECORD OF THIS REPORT AND INQUIRE FOR MAIL, TELEGRAMS OR TELEPHONE CALLS AT ALL ADDRESSES GIVEN.

Figure 18. Salesman's Route Sheet Form

A system of supervision and control of salesmen should include personal contact with a sales executive who can inspire his subordinates. This can be achieved by requiring the salesmen to report to the home office at frequent intervals or by the sales manager spending some of his time with his men in the field. The latter has often proved most effective in stimulating sales. Sales conferences for the discussion of sales points of individual lines, ways of assisting customers and similar matters, should constitute another component part of a supervisory plan. A third feature should consist in a limited amount of supervision through reports and records. Among the reports that have been found most useful are route sheets which are filled out by the home office when routing is controlled (see Figure 18), daily reports of calls and sales (see Figure 19),

DAILY WORK SUMMARY

Calls Made ________
Orders Secured ________
Future Orders Secured ________
New Accounts Secured ________
Accounts Collected ________
Total Amount Collected $________

THE WESTERN WHOLESALE CO.
CINCINNATI, OHIO

Salesman's Daily Report

Day________________ Date________________19 _

Give Us Any Information Which Will Make it Possible for Us to Write Each Individual a Personal, Friendly Letter.

"OUT OF TOWN" When the buyer is out of town, give his name, tell where he was and what he was doing, if possible.

INFORMATION. If the dealer asks any questions or wants information or says anything which suggests our writing a letter, tell us about it.

CHANGES IN THE STORE. If the dealer enlarges or remodels his store—if he puts in a new front—if he puts in new show cases, shelving or equipment—tell us so we can write him and compliment him on his progressiveness.

FAMILY AFFAIRS. We want to be able to write to the dealer concerning such personal affairs as illnesses and deaths. Tell us also of such events as children returning home from college or similar intimate conditions in which we are interested.

CONCERNING THE SALESMAN Whenever the house can write the dealer and say anything to help to make the salesman increasingly "solid" with the dealer, give us the information.

NOTE THIS REPORT IS TO BE SENT TO US WITHOUT EXCEPTION EACH WORKING DAY.

Customer's Name	Located at	Sold Yes	Sold No	Collection Amount		Future Yes	Future No	

Hotel________________ Town________________ Salesman________________

Figure 19. Salesman's Daily Report Form

expense reports, automobile expense reports, and reports on complaints and adjustments. Usually salesmen are also required to submit credit reports and separate reports on collections. Where salesmen recurrently and regularly call upon the same trade and are charged with the duty of making collections, the collection report is usually combined with the daily report on calls and sales.

It is normally not sufficient for the sales manager to check whether or not a salesman included a certain town in his itinerary. It is possible to visit the town in question and call only on one instead of five or six desirable prospects or customers located therein. The report on calls and sales throws light on this point and serves as a check on the frequency of calls on the same trade and on the reasons why orders were not secured. It helps to establish a given salesman's effectiveness through the relationship between calls and sales. It also enables the salesman to survey his accomplishments for the day, thereby often spurring him on to renewed effort. The psychological effect of reporting regularly is wholesome, and the daily report obviates the necessity for much correspondence. From the various reports required of salesmen, their movements can be checked and recorded on maps by means of pins with colored heads. The salesman's attention can thus be called to his derelictions, if any, and more complete, regular, and intensive coverage assured.

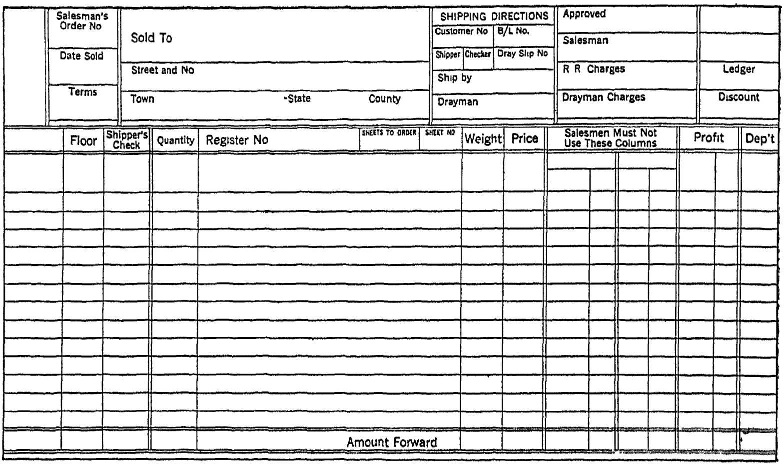
CHAPTER 20

ORDER HANDLING AND CREDIT MANAGEMENT

Much of the work in a wholesale house is done after orders have been secured. Especially is this true of the many routine activities. Since the number of individual sales is usually large and the work of handling, filling, packing, and shipping orders is ordinarily complex, much effort may be wasted through a single unnecessary motion. Manufacturers have long ago learned the need of careful time and motion studies looking toward the elimination of non-essential steps in production. To make similar progress in the wholesaling field it is necessary to analyze the problems surrounding the internal activities of wholesale firms, and at least to make an attempt at their solution. To present these problems is the main function of this chapter.

Handling and Routing of Sales Orders

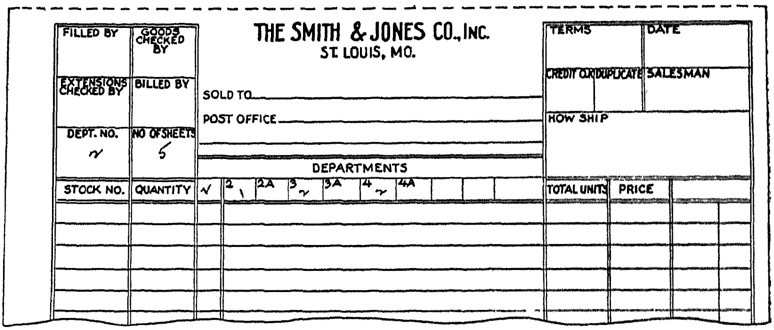
The Sales Order.—Every wholesale concern provides forms on which are recorded the various items of merchandise sold to a customer. The size and contents of such a sales order form differ with the line of business, variety of merchandise handled, location of the customer, and other factors. For example, it is not uncommon for a wholesaler to have one sales order form for city trade and another for *foreign* or out-of-town customers, usually consisting of those located outside the seller's free delivery radius. The differences between the two are that the form for city trade is smaller, because such customers buy more frequently and order fewer items at any one time; also, it contains space for the driver's name in place of information about routing the shipment. In out-of-town orders, routing—whether by parcel post, express, or freight, and over what specific road—must be indicated. Sales order forms may also be differentiated by separate colors for regular orders, for rush



Salesman's Order No
Sold To
SHIPPING DIRECTIONS
Customer No
B/L No.
Approved
Salesman
Date Sold
Shipper
Checker
Dray Slip No
Street and No
Ship by
R R Charges
Ledger
Terms
Town
State
County
Drayman
Drayman Charges
Discount

	Floor	Shipper's Check	Quantity	Register No	Sheets to Order	Sheet No	Weight	Price	Salesmen Must Not Use These Columns	Profit	Dep't
				Amount Forward							

Figure 20. Sales Order Form Used in the Grocery Trade



THE SMITH & JONES CO., INC.
ST. LOUIS, MO.

FILLED BY
GOODS CHECKED BY
EXTENSIONS CHECKED BY
BILLED BY
DEPT. NO.
NO. OF SHEETS
SOLD TO
POST OFFICE
TERMS
DATE
CREDIT O.K.
DUPLICATE
SALESMAN
HOW SHIP
DEPARTMENTS

STOCK NO.	QUANTITY	√	2	2A	3	3A	4	4A				TOTAL UNITS	PRICE	

Figure 21. Simplified Sales Order Form Used by a Dry Goods Wholesaler

shipments, and for customers waiting in the warehouse for the goods. Whatever the form of a sales order, it always contains spaces for proper customer and salesman identification, description of the merchandise, quantity sold, the price at which the sale was consummated, terms of sale, the date sold, and remarks. It also provides a varying number of spaces for checking the responsibility for the numerous handling and filling operations (see Figures 20 and 21).

Sources of Sales Orders.—Orders from customers flow into a wholesale house from at least four distinct sources. Outside salesmen may be one channel, either bringing in their orders personally or transmitting them by mail, wire or telephone. Some customers send in their own orders regularly by *mail* or follow this practice in the intervals between salesmen's calls. Many customers, especially those residing in the same city, frequently order goods by *telephone,* while out-of-town customers resort to this method in emergency purchases. Finally, the customer may visit the wholesale house and place the order in person with house salesmen. These sources are of unequal significance to houses operating in different lines of trade. In a hardware house many more orders are secured from customers who place orders by mail through the catalog at their disposal, than is true in a grocery firm where a large proportion of the orders is obtained through salesmen or via the telephone direct from customers. A dry goods wholesaler, on the other hand, secures a large proportion of his orders from customers who select merchandise while visiting the house.

The source of an order determines the number of copies to be made out. When taken by a salesman it is good practice to make the sales order in duplicate, one for the customer and the original to be sent to the house. A third copy may be retained by the salesman. Two copies should be prepared when the sale is made over the telephone or through a customer's personal call. When the house is small and the number of departments limited, a separate order may be made out for the goods in each department, so that they may be filled simultaneously without the necessity of copying it in the office. The order which is

submitted directly by the customer through the mails, usually comes as a single copy, and even that may not be on a regular form. This requires a transfer to the forms of the company, with as many copies as are needed.

Steps in Routing Sales Orders.—In every wholesale house a certain procedure must be developed for the handling of orders. While the routing systems in use differ somewhat, they all include approximately the same steps, which are as follows:

Registration.—When an order is first received by the house, it is registered in an ordinary day book, showing at least the serial register number of the order, the date it was received, and name of the customer. The purpose of this step is to assure greater regularity in filling orders, to prevent losses and misplacements, and to check on the movement of orders through the warehouse and shipping department. In some houses, the location of each item on the order as to floor or department is marked, at the time of registration, in a special column on the form provided for this purpose.

Credit Checking.—The order is sent next to the credit department for checking, unless it is a strictly cash transaction. Some firms prefer to secure credit approval even before an order is registered, for if it is rejected by the credit department, registration is unnecessary. The handling of the credit phase of the transaction is discussed at the end of this chapter.

Checking Prices.—The order is then checked as to prices quoted. This work may be done by the general or territorial sales manager, by buyers, assistant buyers, or by a price record clerk, depending upon whether prices are sensitive and fluctuating, and whether a one-price or varying price policy is pursued. In firms handling staple lines of merchandise with few price changes the order clerk may be given access to the official price list in order to do this checking. If the quoted price is too high the figures are changed; but if too low, the order may be delayed pending adjustments by correspondence with the customer. When such a delay becomes necessary, the order must

be returned to the register clerk for filing, pending final action. When the new price is finally accepted by the customer the order is registered again under the new date and sent on its way. A similar procedure is followed when the order cannot be approved for credit and an attempt is made to resell it on a cash basis. Some firms believe that an order should first be checked as to prices before it is sent to the credit department, for, if it is not accepted because of errors in quoting prices, no credit investigation is necessary which would save both time and expense. A further checking operation which is sometimes made at this point is that of weights, especially if they are uniform and well known.

FILLING THE ORDER.—The next step after prices are checked is to fill the order in the warehouse or stock rooms. Rush orders, so identified by stamp or color, take precedence. There are two important general methods of procedure used in filling an order. One method is to use the original sales order or a single copy thereof as a work sheet for all floors and merchandise departments. The other method is to fill the order simultaneously on the basis of a separate copy of the order for each floor or department concerned.

When an order is filled from a single copy, it is necessary, first, to indicate opposite each item the number or symbol of the floor or department in which it is located, and second, to send the order by messenger or pneumatic tube to the topmost floor from which some of the items are to be filled. An order filler of this department assembles the items of the order, checks them, records the time the work was completed, initials the form, and sends it together with the merchandise to the next lower floor represented on the order. The order continues on this journey through the warehouse until all goods called for have been assembled, whence it may be sent to the broken package room for less than original package lots and finally to the packing room (see Figure 22).

Various mechanical devices are used for assembling goods and for transferring them from one department to another. They include chutes, elevators, automatic conveyors, and tracks built on a decline going through all departments and ending

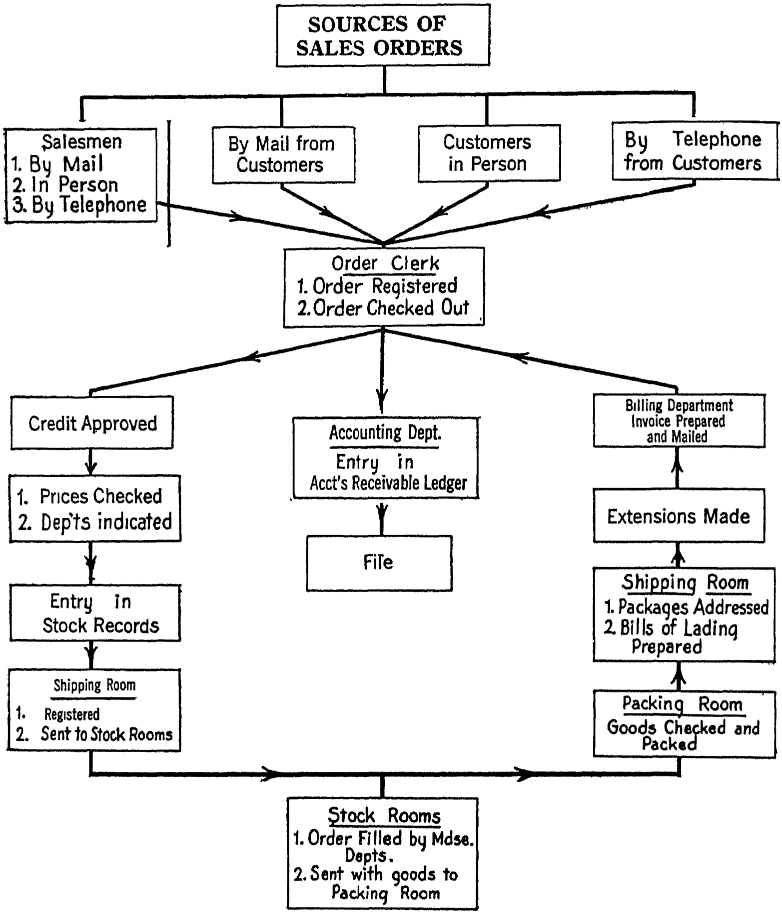


Figure 22. Course of Sales Orders when a single copy is used as a work sheet for filling by all merchandise departments concerned

in the packing or shipping room. If order fillers are stationed on respective floors, the goods are conveyed from one department to another by a porter or one of the stock boys. In houses where filling is done from a single copy of the order, so-called *order chasers* are used who go through the various departments filling all items called for.

Filling from a single copy of the sales order is feasible when the merchandise is not bulky (else the movement of goods from

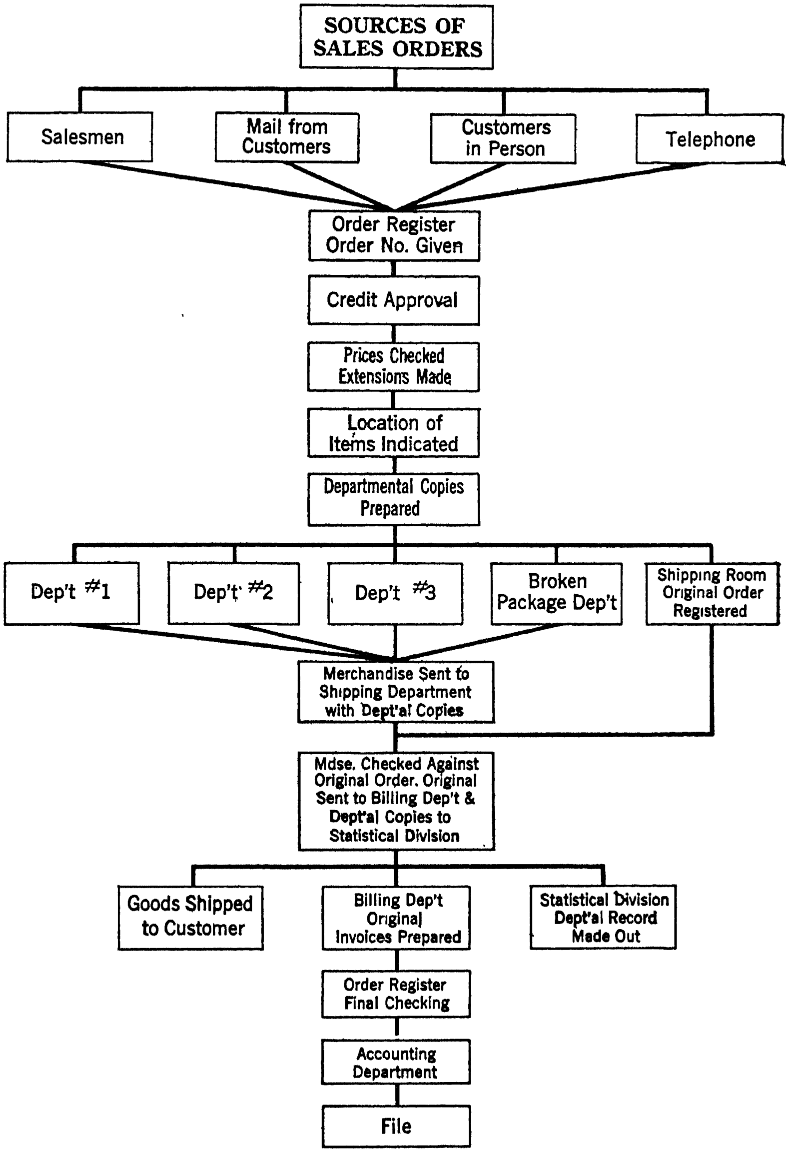


Figure 23. A Simplified Procedure Diagram Showing the Course of an Order when all departments concerned fill it simultaneously on the basis of departmental copies or floor slips

department to department would be too cumbersome); when most orders either call for merchandise in one or two departments or, at the other extreme, call for items located in most departments; or when the firm operates on a small scale and goods are stored in a limited space so that order chasers can quickly follow through an order to completion. In any event, there is delay in filling orders by this method, since but one department can work on an order at any one time, and if an order is held up in a single department others are prevented from filling it. Moreover, by requiring the goods to go through all departments affected, handling costs are increased.

Figure 23 illustrates the procedure followed in filling an order simultaneously in two or more departments. Each item is checked as to department, and when the number of departments is ascertained, a copy of the order is prepared for each one, including the broken package room. Each copy is identified by the same order number, but the sheets are numbered serially. All copies, together with the original order are sent to the shipping room where the order is registered on a shipping ledger, and a location is assigned for assembling it in the packing, shipping, or city delivery room, such information being stamped on all copies of the order. The copies are next distributed to the respective departments, where the merchandise is filled and sent directly to the assigned location via chutes, spiral gravity conveyors, elevators, declining tracks, and the like. This plan obviates the necessity of transporting merchandise from department to department, permits simultaneous filling, and prevents undue delays.

Various modifications of this method have been adopted, some houses working it on a floor basis rather than by departments, others copying on each form only the items affecting a single floor or department instead of submitting a copy of the entire order to each unit. Another variation that is more or less common is to prepare floor sheets (copies of the order) only for goods ordered in full packages, using the original for filling items ordered in broken packages, especially when no central broken package room is maintained. In such cases, the original order is handled in the filling of broken package merchandise

in the same way as when a single copy is used for filling the entire order.

Packing the Goods.—Packing and shipping operations may be performed by the same department or the two functions may be separated. In either event there must be close cooperation between them and in rush hours the personnel may be transferred from one activity to the other. The shipping department, in turn, may be divided into city and country divisions, the former taking care of city packing and delivery, and the latter preparing orders for parcel post, freight, express, or long-distance truck shipment.

As has been shown in the earlier discussion in this chapter, merchandise may reach the packing room via two methods. If the order is filled from a single copy, the filled order reaches its destination as a unit, having been built up as it passed through the various departments. If the order is filled simultaneously by means of duplicate copies, the merchandise is sent directly to the packing or shipping rooms from the individual order fillers. Regardless of the procedure followed in filling orders in the stock rooms, when the merchandise is assembled in the packing room it must be checked by packers against the original order, and all outs, substitutions, and shortages carefully noted. *Out slips* are prepared if the order cannot be filled entirely, and errors are corrected as discovered. The packer next proceeds to pack the goods and to label or stencil each package, after which the packages are weighed and sent to the shipping room.

Forwarding the Shipment.—When the packages are received in the shipping room, they are sorted according to destinations, and a check slip is prepared for the guidance of the loaders, showing the name of consignee and the number of packages in each shipment. Bills of lading are then prepared in triplicate on which are entered the actual weights and classifications, the original being sent to the customer, the duplicate to the carrier's agent, and the third copy being used as a record for the shipping department as well as for checking against the carrier's *prepay expense bill* when freight is prepaid by the shipper.

Extensions.—After the goods have been prepared for shipment, the original sales order is returned to the office, where prices are reexamined for substitutions, and extensions are computed and entered in the proper column. In some houses, extensions are made when prices are first checked. If, however, a concern experiences many substitutions, or a large number of orders have to be *filled short,* it is wiser to postpone making extensions until after the order has been filled.

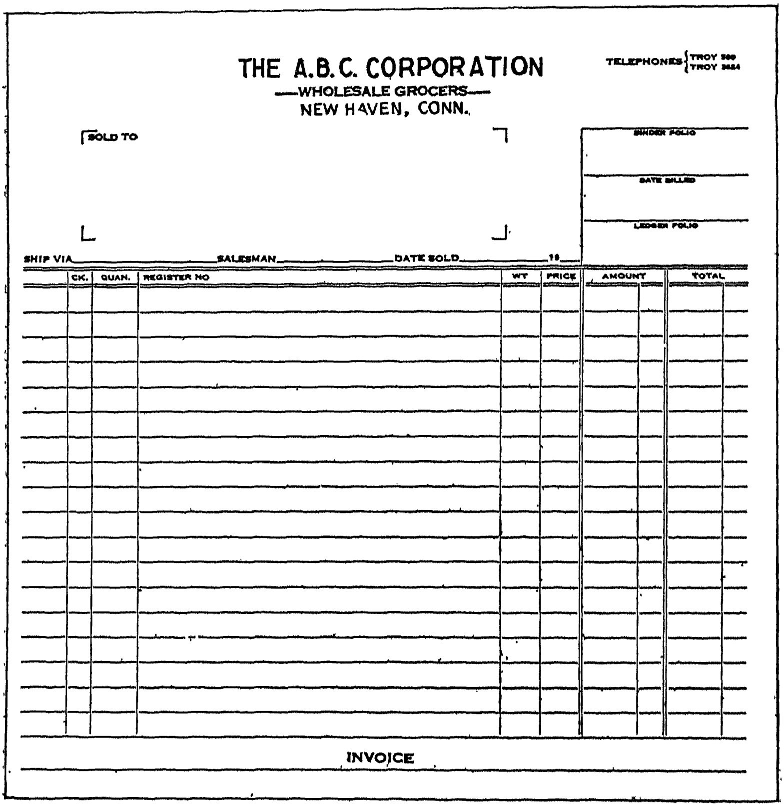


Figure 24. Form of Invoice

Billing.—A separate organization may bill goods to city trade, while another handles invoices to out-of-town customers. No invoices should be prepared until the order has been filled,

although some houses prepare them in advance, making extensions later (see Figure 24). The number of copies of an invoice varies in practice to a considerable degree, anywhere from two to nine or ten. Even when the same number of invoice copies is prepared by two houses, their destination may differ greatly. The ribbon copy must always be sent to the customer, and a second copy used for posting to the ledger. Beyond this there is little uniformity. In preparing several copies of an invoice, continuous interfolded or manifold forms may be used so as to eliminate the necessity for numerous operations. Ease of preparation makes it possible to supply extra copies of the invoice to serve one or more of the following purposes:

1. Shipping label or packing slip.
2. Shipping order for filling purposes.
3. Copy for shipping record and file.
4. Copy for entries on stock records.
5. Separate copy for pricing.
6. Office copy.
7. Duplicate for receipt from customer.
8. Delivery sheet in case of local deliveries.
9. Back-order.
10. Salesman's copy.
11. Sales department copy.
12. Commission copy for clerk who figures salesmen's compensation.
13. Branch office copy.
14. Credit department or collection copy.

How many copies of an invoice to prepare and what their destinations should be depends largely upon the past experience of the house and upon special conditions under which it operates. Some houses make out the bill of lading in triplicate in the same operation as the invoice by means of continuous forms, and others have one or more statements prepared at the same time. The latter are used as reminders if payment is not forthcoming when due.

Entry in Stock Records.—If a perpetual inventory system is maintained, every sales order or sales invoice must pass

through the hands of the clerks making entries in the stock records. At what point in the procedure this should be done is a matter of controversy. Some authorities insist that entries in the stock records should be made as soon as the goods are priced and the order is approved for credit. This assumes, however, that orders are filled exactly in rotation, that no substitutes will be effected, and no deviations will be made in the number of units filled. For fast-moving stocks of a non-technical nature this is hardly possible; hence it is far better to wait until the order is actually filled.

CHECKING OUT.—When the order has gone through the above operations, its work is about finished and it should be sent to the register clerk who checks it out, thus keeping track of every order until completed.

POSTING.—The order is then sent by the order register clerk to the accounting department. Here the customer is charged with the proper amount in the sales ledger, and such other records are prepared as are deemed necessary for good management. Posting is also done from a copy of the invoice in many houses. Departmental copies of the order are commonly used for statistical purposes and then discarded.

FILING.—The final step in the routing procedure is to file the original order and also one copy of the invoice. The latter may be used for analysis of sales, as a basis for adjustment of claims, and for other purposes. Such files are usually kept for a period of five or six years, depending in part upon the statute of limitations in the territory in which the house functions.

Traffic Management[1]

There are two kinds of merchandise movement or traffic in a wholesale concern. The *internal movement* of goods, which is part of the work of the warehouse personnel and the respective merchandise departments, includes such operations as check-

[1] For an excellent discussion of this subject, see W. E. Butterbaugh, "Industrial Traffic Management," Domestic Commerce Series—No. 39, Washington, D. C., U. S. Government Printing Office, 1930. Although the survey is devoted principally to the traffic management problems of industrial concerns, those of wholesale firms differ in no important respect.

ing, pricing, distributing to departments and floors, assembling for storage and handling, packing and order routing. The *external movement* of goods centers around the functions of receiving, shipping, and local delivery, and represents the core of activity of the traffic department. The term traffic management is restricted in this discussion to the external transportation problems and activities of the wholesaler.

Traffic management is not always recognized as an important wholesaling activity; however, not only is the performance of such functions in a wholesale house a vital necessity, but, when properly discharged, it may accomplish numerous savings and result in the elimination of waste. If the wholesale house is a large one, traffic management is the function of a separate department in charge of a traffic manager, but in smaller concerns this duty is customarily assigned to some one in the shipping room, usually the shipping clerk. The person responsible for the work should possess, in addition to a formal training in transportation and traffic management, a certain amount of practical experience that will enable him to speak the *traffic language* and readily develop and maintain favorable contacts with carriers, freight agents, switch clerks, rate clerks, and even the yard crew. He should be familiar with all available transportation facilities for the movement of both inbound and outbound shipments, and thoroughly conversant with the various express and freight classifications.

Traffic Management and Receiving.—Most activities in which the receiving department is engaged do not relate directly to the external movement of goods, but there are a few functions connected therewith which demand attention of a traffic expert. These activities are outlined below:

1. Routing incoming shipments in order to effect economies in transportation and to expedite receipt of the goods. Having complete knowledge of the best routings from a given source of supply to his warehouse, the traffic manager should pass such information on to vendors. Since the wholesaler normally pays the freight on incoming goods, he usually designates the route over which they shall be shipped. Suggestions as to routing

are normally accepted by the manufacturer even when the latter pays the freight.

2. Tracing undue delays in transportation or lost shipments. In doing this, the traffic manager must be able to estimate the location of a shipment by the time-distance between source of supply and destination. This can be done through a familiarity with the average rate of speed per hour for freight by the different types of carriers. For rail shipments in 1933 this rate was on the average 15.6 miles per hour.[2]

3. Carting *from* terminals is another receiving problem which is closely allied to carting *to* terminals on outgoing shipments; hence the problem of carting is treated here in its entirety. One of the chief questions to be decided is whether to use the equipment of the firm or to hire such independent agencies as transfer and trucking companies. In recent years common carriers have tended to assume responsibility for this function through the adoption of so-called *store-door delivery* service, whereby the carrier not only *delivers* less-than-carload freight to the consignee but also *collects* the goods from the consignor. This service offers several advantages, some of which inure to the benefit of the wholesaler and others to the benefit of the carrier. It reduces the number of vehicles crowding about terminals, relieves traffic congestion, facilitates full loads with incidental savings, and enables the railroads to handle a greater volume of goods through their freight terminals. The unloading of merchandise directly from the freight car to the truck for immediate delivery contributes to greater economy. Otherwise, goods must be unloaded and placed in the freight house, the consignee must be notified of their arrival, and finally, the goods must be stored until called for. Other benefits which accrue from such a unified plan are that collection and delivery of shipments decrease idle time of expensive carting equipment. There tend to be fewer idle and motionless cars on railroad tracks and thus a larger supply of them is available. The wholesaler is relieved from the necessity of engaging in transportation which can be best performed by specialized agencies.

[2] American Railway Association, Report of Car Service Division, pp. 9-10, Chicago, Nov., 1933.

The greatest impetus, however, to the widespread adoption of this plan in recent years has been the competition which railroads have faced from long-distance trucking companies which both collect the shipments from consignors and deliver them to the door of consignees.

4. The traffic manager should also supervise the unloading and weighing of merchandise in order to minimize demurrage charges, make the goods quickly available so that sales may be expedited, and cancellations and back-orders reduced to a minimum. Weighing is of especial importance when freight is paid by the receiver, or when shipment is in less-than-car lots. Claims against carriers or vendors may arise from shortages thus discovered.

5. Auditing of freight bills, embracing an examination of the classifications assigned to each item on the bill and a verification of extensions should be handled by a traffic expert. When audited and found correct, freight bills are approved and filed with the corresponding bills of lading. If discrepancies are disclosed, a basis is furnished for claims, since payments to carriers are usually made immediately upon receipt of the goods although a limited amount of credit may be extended by railroads to shippers on their approved list.

6. It is the function of the traffic department to handle the claims resulting from discrepancies in incoming shipments. Such claims are filed against the carriers if they have arisen out of *bad-order* shipments, *concealed loss or damage,* and errors in freight bills. In filing a claim against a carrier all data in substantiation thereof must be presented, including the original bill of lading, the original invoice or a certified copy thereof, the original freight bill showing notation of loss or damage as made and signed by the carrier's agent, and, if the loss is concealed, the copy of the inspection report which was made out by the agent when the damage was discovered must also be presented. The chief reasons for claims against vendors, except where merchandise is returned, are shortage, damage for which they are responsible, over-charges, and misrouting. Even when these claims are prepared by merchandise department managers,

the traffic department should keep records of them and follow them up.

7. Records and statistics on inbound shipments are a useful tool in traffic management. A record of inbound tonnage, especially over controlled roads, i.e., roads chosen by the receiver, is desirable, as is a file of freight bills, a record of claims filed, a claim pending file, and a transfer file for settled claims.

Traffic Management and Shipping.—The principal functions of the traffic department in connection with shipping operations are as follows:

1. Outgoing shipments should be routed in order to reduce costs of transportation to customers, to increase speed of delivery as a service to the trade, and to prevent damage to perishable merchandise. In routing such shipments there is usually a greater variety of transportation facilities from which to choose, but very often the means of shipment—whether by freight, express, truck, electric railway, water route, or air, as well as the particular carrier—are designated by the customer when placing the order.

2. One of the shipping tasks of the traffic department is that of packing. This work should be done with due reference to the safety of the goods, cost of packing material, labor costs, and the effect of a given type of packing and material upon the classification rate. The nature of the goods often determines the type of packing, the general trend being away from heavy wooden boxes to the lighter and less expensive containers made of composition board, light woods, and fiber or pulpwood.

3. Another function is the marking of freight for shipment. Markings should be durable and legible showing only the essential points, such as identity of the shipper, consignee, and of the goods. Checking weights and classifications is also necessary. Freight rates vary, not only with the nature of the goods and method of packing but also according to the commodities combined in a package. Consequently, no goods of two different classifications should be included in the same package, where the freight is a significant item, since the entire package would

take the highest rate classification applicable to any of the contents. The contents should be carefully described so as to obtain the lowest rate classification possible. *Cost book catalogs* and *freight classification books* are helpful in ascertaining exact weights and in securing a billing terminology for honestly describing them so as to secure rates materially lower than charged if the designations were less exact.

4. Weighing shipments, both carload and smaller quantities, is another shipping room activity. Freight charges are arrived at by multiplying the weight of the shipment by the authorized rate, hence weights must be recorded on the bill of lading. A distribution list is made out showing weights of the different packages, when shipping in small amounts, to facilitate proper allocation of cost to the different customers. Platform scales are used for weighing goods on trucks, track scales are provided for weighing carload shipments, and different types of portable scales are used for other purposes.

5. Ordering *empties* to be *spotted* ready for loading also falls in the province of the traffic manager. He must also know how to stow the cars to attain maximum efficiency and a minimum shifting of goods. Whether heated, refrigerated, or other special cars are needed must likewise be determined. To supervise the loading of goods to prevent damage, and to see that all packages are called and checked against a record previously prepared by the shipping room are additional activities of the traffic department.

6. Rate information to the sales department should be furnished by the traffic department to enable salesmen to quote prices which will meet competition. This is especially true when it is necessary to equalize rates by prepaying all or part of the freight bill. Claims for customers against carriers are commonly handled by the wholesaler who maintains a traffic department, even though the customer pays the freight, since few retailers know the exact procedure. The traffic department should maintain records of outgoing traffic operations as well as those of receiving activities mentioned previously. This work should include a record of sales tonnage, by carriers; a record of all cars ordered, showing date the car was ordered, date of de-

livery on the switch, when it was set, loaded, taken out, the initials and number of the car, and name of consignee; the amount of prepaid freight, by customers and salesmen; and a file of shipping tickets showing a complete record of each shipment.

Traffic Management and Local Delivery.—It is the traffic manager's duty to decide upon the best method of making local deliveries to attain a proper balance between cost and service rendered. Whether to use horse-drawn wagons, gasoline motor trucks, or electrically powered vehicles is a question calling for decision. In making the choice attention is given to the matter of speed, cost of operation, original investment, length of life, location of customers in relation to the warehouse, street traffic, and many other similar factors. Even when the proper type of motive power is chosen, its adaptation may vary. Some wholesalers equip a single truck with several trailers, and in this way keep it in constant operation while some of the trailers are being loaded or unloaded. For similar reasons, other wholesalers have resorted to tractors. The type of equipment is also to some extent predicated upon the policy of the house with regard to the free delivery radius. While some wholesalers make free delivery as far as 50 or 75 miles from the warehouse others limit such operations to a radius of 25 miles or to the boundaries of the metropolitan area. Profitableness of area apparently should be determining factor rather than any arbitrary ruling.

Routing and controlling the movement of local delivery equipment is another chief problem. The territory should be zoned to prevent overlapping and to insure delivery according to schedule. Every delivery department should maintain route sheets showing the movement of all vehicles, also a file of copies of all orders receipted by customers. In addition, accurate expense records showing the cost of maintaining and operating the delivery equipment are indispensable to efficiency and service.

Credit Management

Since the bulk of the business of a wholesale house is subject to some credit arrangement, the work of the credit department is very important. When a wholesaler extends credit to a cus-

tomer, it is equivalent to making a short-time investment in the business of his customers. He thereby stakes his capital on the location, methods, and ability of a particular enterprise and becomes, in a sense, a partner in the debtor's business. Because of the risks involved in many business enterprises, losses must be expected and the creditor should stand ready to bear his proportionate share. Responsibility for credit management in a wholesale establishment is usually assigned to a special official, designated as credit manager. His two principal duties are to keep losses down to a minimum and to maintain sales at a maximum.

To exercise the nicety of judgment that is essential in securing a proper balance between these two objectives requires a technique highly intricate in nature. Many volumes have been written on this subject, hence, it is possible in the following paragraphs merely to indicate a few of the essential elements of granting credit and the collection of accounts.[3]

Checking Credits.—One of the first duties of the credit manager is to pass upon applications for credit from new customers. This can be done only after a careful investigation of the three "C's" of credit, namely, Character, Capacity, and Capital, applying to the risk in question and supplemented by other factors such as business conditions and policy of the house. To throw light on these factors, information must be collected from various available sources including salesmen, general and special mercantile agencies, trade references, credit interchange bureaus, trade credit bureaus, attorneys, banks, and the risk himself. From these various sources information is obtained on the risk's antecedents, financial condition, fire record, trade opinions, and similar items. When this information is collected, it must be correctly interpreted prior to passing judgment.

Sales orders from old customers must also be checked for credit. In addition to the information secured from the sources enumerated above, there is also the past experience which the

[3] See T. N. Beckman, "Credits and Collections in Theory and Practice," revised edition, New York, McGraw-Hill Book Co., Inc., for an elaboration of this technique; also W. A. Prendergast and W. H. Steiner, "Credit and Its Uses," New York, D. Appleton & Co., 1931

firm has had with these accounts. A credit limit must be placed on both old and new accounts and such limits must be revised as warranted by changed conditions. Adequate records must be maintained in checking credits. These usually include a credit card that contains a condensed summary of the information available concerning the risk, a folder file containing all items of information collected about the risk, and a follow-up or pending credit file in which orders are placed pending investigations of credit standing.

Collecting Overdue Accounts.—It is the function of the credit department of a wholesale concern to collect all overdue accounts promptly but without the loss of good will. In developing a collection system the following factors must be taken into account: (1) the class or classes of customers; (2) the follow-up system to be used, whether it be the ledger plan, the duplicate invoice system, or the tickler card method for recording all collection steps taken; (3) the kind of efforts comprising the collection system; (4) the number of steps to be taken in the collection process; (5) the sequence or arrangement of the various efforts; and (6) the time elapsing between any two successive steps, as well as the time required for the entire collection process.

When customers are of a high credit standing or the policy of the house is one of leniency, few harsh measures are included in the collection system, the number of steps taken is large, and the interval between two successive efforts is fairly long. A contrary policy is pursued when the credit standing of customers is low or when the wholesaler is strict in the matter of credit extension. Under all circumstances it is advisable to arrange the steps in such a sequence that the milder measures will be taken first and the harshest last. For the sake of effectiveness a longer interval between steps is used in the beginning of the collection process, but as the stage of delinquency advances the interval is shortened.

There are numerous collection efforts from which to choose; among them are statements, personal calls by salesmen, personal calls by the credit manager himself, collection letters, drafts

preceded by advance notices, collection agencies, attorneys, and various kinds of collection "services" supplied by publishers, credit insurance companies, and other organizations. Some overdue accounts may be adjusted on a friendly basis through extensions of time or moratoria, composition settlements of so much on the dollar, or through liquidations by means of assignments for the benefit of creditors. When these methods are unavailing, litigation is resorted to and a judgment secured which is either executed by levy on property in the usual way, or through garnishment proceedings. Involuntary bankruptcy is still another method of enforcing payment. In collecting overdue accounts the credit manager must be familiar with the collection laws in the various states in which customers are located, in addition to possessing a thorough knowledge of collection procedure and technique. Good collections, however, begin with the extension of credit. Much grief can be avoided if accounts are carefully investigated prior to credit extension, and the work of credit management is placed on a scientific basis.

CHAPTER 21

SCIENTIFIC MANAGEMENT APPLIED TO WHOLESALING

Throughout this Part of the book stress has been laid on the need for scientific management in the choice of a location for the business, its organization, merchandise layout, buying, stock control, order handling, traffic and credit management, and other operations. Attention has also been called to the extent to which scientific management is now actually practiced by wholesale concerns in these various phases of the business. No general picture of the subject as applied to wholesaling has been presented, however, nor have some of the more advanced developments of the subject been analyzed. This is the purpose of the present chapter.

The Profit Motive.—Profit constitutes the dominant motive force of the competitive régime which generally characterizes the American economic order. The wholesaling segment of our economy is subject to the same competitive influence. In the final analysis, the success of any wholesaling activity is measured principally in terms of profits. A distinction should be made at this point between the terms *gross profit* and *net profit*. Gross profit is the margin between total sales and cost of the goods sold; it measures the amount available for expenses and remuneration of the entrepreneur. Net profit, on the other hand, represents the portion of the gross margin remaining after deducting operating expenses. If, however, costs of doing business exceed the gross margin, a net loss results from the operations rather than a net profit. Since production (including wholesaling activity) is carried on under the capitalistic system not for use only but for profit, net profits seem warranted and are justified by reason of risks assumed by entrepreneur and his exercise of special effort and managerial foresight.

Methods of Increasing Net Profit.—Inadequate net profits or net losses are generally caused by an insufficient gross margin, limited volume of business, high operating expenses, or a combination of these factors. Faulty calculations of mark-ups, profits, and selling prices contribute to this delinquency. It follows therefore that the principal means by which net profits can replace losses, or can be increased above those now enjoyed by the wholesaler, are through a widening of gross margins, an increase in sales volume, or through a curtailment of operating expenses without sacrificing essential functions and services.

Ordinarily, it is very difficult for the wholesaler to secure a wider gross margin; the matter is not entirely under his control but is more often the prerogative of the manufacturer. Sometimes the wholesaler may be allowed a larger trade discount for his gross margin if he can convince the manufacturer that he performs essential functions at reasonable cost and yet secures little or no net profit on the product. In fact, some manufacturers have attempted to establish their trade discounts to wholesalers on this basis.

When conditions are propitious, as during the upward movement of the business cycle, it is not exceedingly difficult to enhance net profits through an increase in sales volume. Normally, however, it is much harder to attain larger profits in this way except where effective sales control is exercised. Under ordinary circumstances, and especially when business travels a descending spiral into a depression, the most effective way of increasing net profits or decreasing losses is through a reduction in operating expenses and the control of all business operations affecting costs. There are, indeed, few wholesale houses—whether independently operated, or operated by manufacturers, chains, or cooperatives—in which there is no opportunity to eliminate wastes and inefficiencies through the application of scientific management and thereby to secure higher net gains. This possibility is particularly attractive to the progressive wholesaler, for the matter of reducing operating expenses is entirely under his own control and is but indirectly influenced by outside sources or by external conditions.

Control of Sales

Sales Planning and Supervision.—Partial control over sales activities can be attained through proper planning of future volume, which gives due consideration to past performance, market potentialities, prevailing and anticipated competitive and general business conditions, changes in the composition of the goods carried, and to changes in sales and other policies of the house. All of these factors, together with the steps taken in the development of a sales plan, were the subject of discussion in a preceding chapter (see Chapter 19). At that point, attention was also called to the need for sales control through a proper selection and training of salesmen, the adoption of an effective compensation system, and by sales force supervision. Only through the latter is it possible to direct the activities of a salesman along profitable channels.

Sales Analysis.—Correct and effective sales supervision is predicated, however, upon scientific knowledge of sales accomplishments. It is not sufficient to have a *general* knowledge of sales results. What is needed is accurate and detailed information that can be obtained only through a periodic sales analysis. For the facts thus discovered there is no practical substitute. In every instance in which such analyses have been made, so far as is known, the facts brought to light have amazed the management and have been invariably followed by some corrective action.

The first step in a *sales analysis* is to break down the total volume of business obtained during the year (the analysis may be based on a shorter period provided it is typical of the entire year's business) *by merchandise departments* or other merchandise classifications. This would show which lines of merchandise produce the largest volume and which yield the smallest amount of business. In addition to their ranking, this analysis shows the number of items sold in each merchandise class, and the average price per item. This information may lead to a greater concentration of sales effort on the goods which have a high per-item price and yield reasonable volume, and less upon those which already produce large volume but whose per-item

price is very low. Table 23 illustrates the results of such an analysis made by one of the authors for a wholesale automotive firm for a period of 13 weeks (one-quarter of a year), and embracing approximately 20,000 invoices with more than 60,000 items.

TABLE 23. SALES AND ITEMS, BY DEPARTMENTS

(Total sales for 13 weeks = $280,000)

Department	Per Cent of Total Sales	Number of Items	Average Per Item
Replacements	37.3	33,996	$3.07
Accessories	12.0	8,286	4.08
Batteries	1.3	242	14.71
Radios	7.7	234	91.72
Radio Supplies	7.9	2,614	8.42
Shop Equipment	14.2	920	43.07
Shop Supplies	8.5	12,664	1.89
Tires	3.5	1,018	9.65
Refrigerators	7.6	100	213.39
Total	100.0	60,074	$46.57

The second step is to analyze sales by salesmen, showing the total volume produced by each salesman, and the distribution of that total by merchandise departments. Such an analysis shows which salesmen are comparatively successful when matched against others operating in a similar territory and calling on the same type of customer. Since each outside salesman normally operates exclusively in a given territory, this analysis automatically furnishes a territorial picture of business. However, when a salesman's territory is large, additional territorial analysis may be worth while as a means of delimiting the firm's trade area. An analysis of sales by salesmen also indicates the lines of merchandise in the sale of which a given salesman is the strongest and those in which he is relatively weak. Armed with this information a sales manager can proceed to train his salesmen intelligently on an individual basis. From the salesmen strongest in a given field he can obtain information as to methods and techniques used which can be advantageously passed on to those in need of it. The statistical

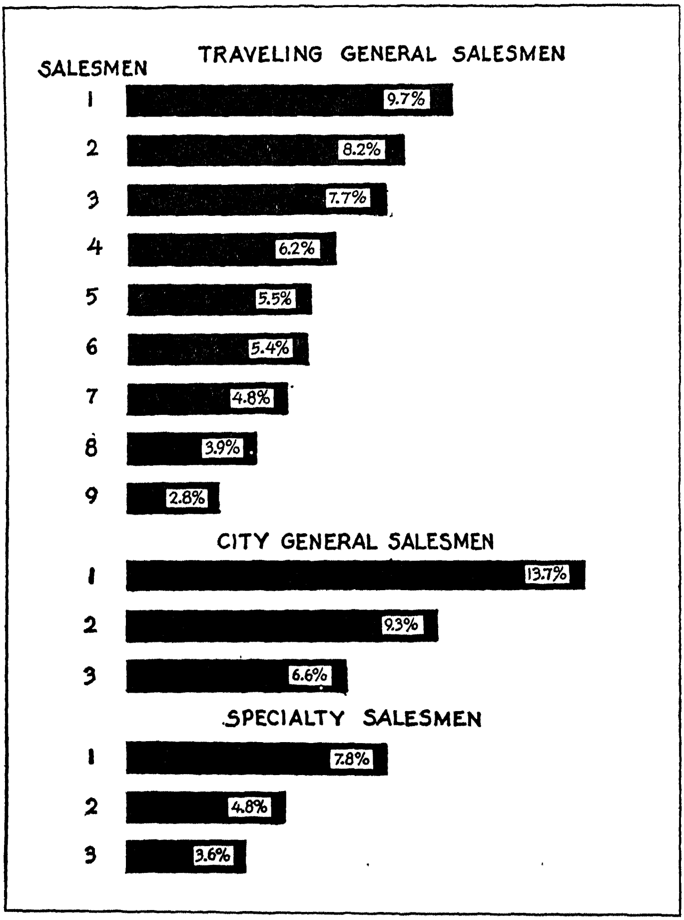


Figure 25. An Analysis of Sales, by Salesmen

results of such an analysis by salesmen for the above-mentioned concern are illustrated in Figures 25 and 26.

The third important step is that of *analyzing sales by customers,* showing the amount which each customer purchased from the house during the period. These data are classified by customers according to amount of purchases, separately for city trade and for customers located outside the city in which the

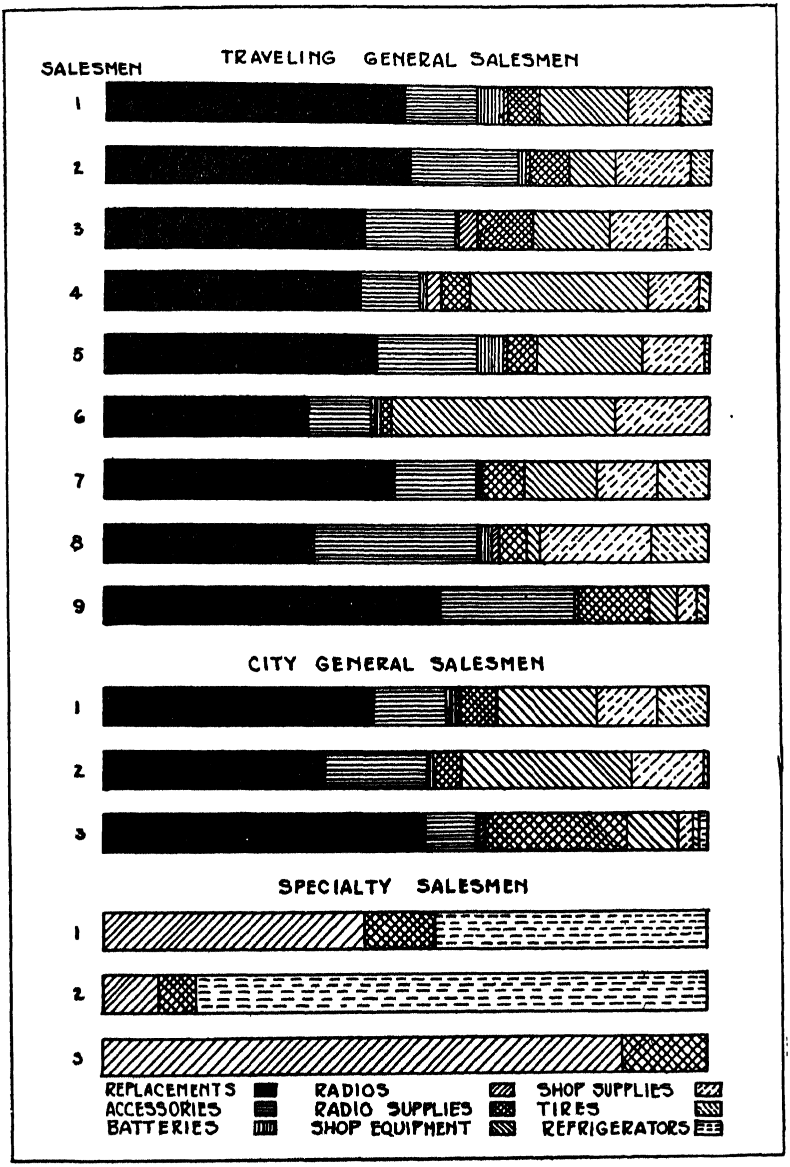


Figure 26. An Analysis of Sales, by Salesmen and by Departments

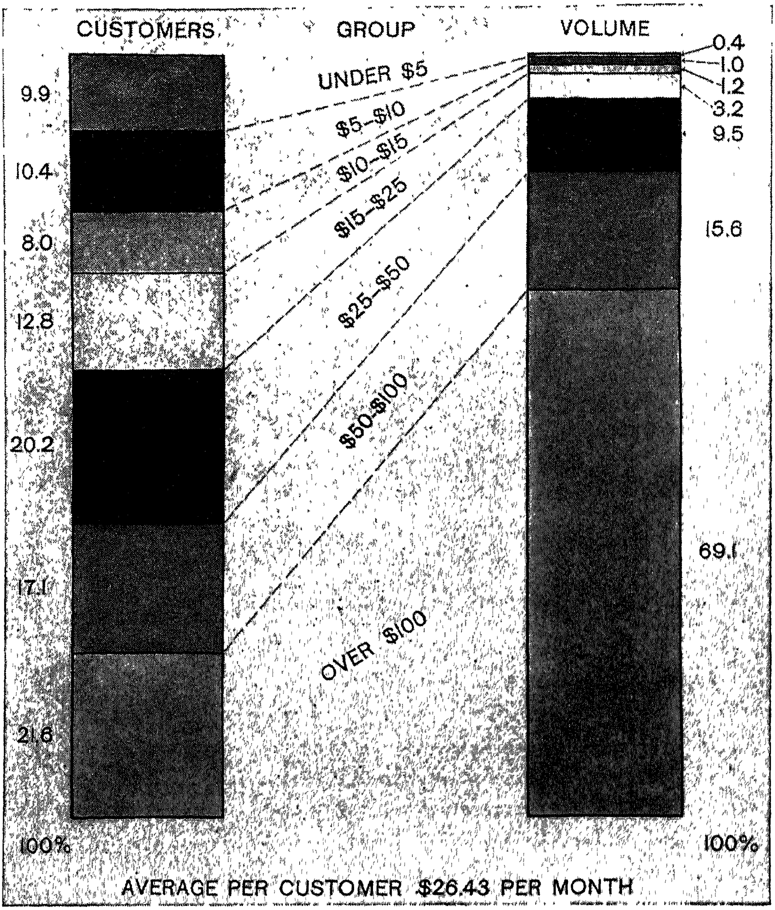


Figure 27. Customer Analysis, by Amount of Purchases from the House

house maintains its place of business. Figure 27, which is the result of such an analysis and is believed to be typical of many wholesale houses, shows how little business is contributed by a large percentage of the customers and what a small proportion of the customers yields the bulk of the volume. To make the business of the former group more profitable to the house, it becomes necessary to study the possibilities of each customer. Every

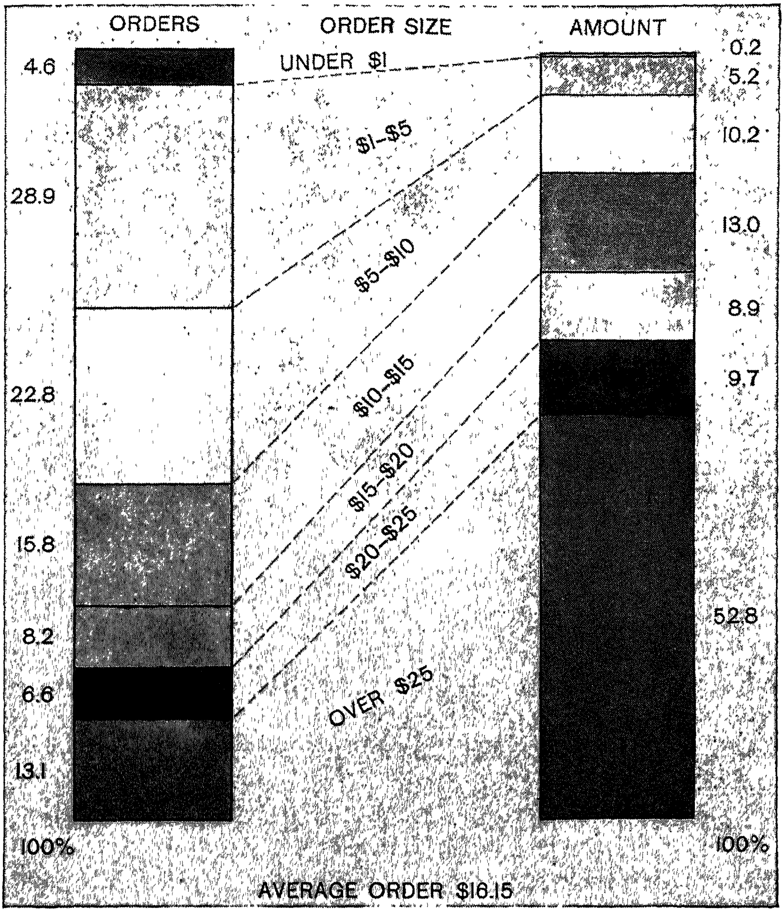


Figure 28. Sales Volume, by Size of Order

effort should be made to secure a larger volume of business from a promising account through a concentration of purchases, or to sell him more merchandise that bears a high margin. When business potential is lacking, it may be best to eliminate those customers who contribute too small an amount of trade, first by calling on them at less frequent intervals and gradually dropping them from the list. Time thus saved by salesmen can be

utilized to greater advantage either in cultivating new trade or in more intensively serving more profitable accounts from which even greater volume may be forthcoming.

Closely allied to an analysis of sales by customers is the *analysis by size of orders.* Figure 28 shows a distribution of sales orders by size groups. It reveals a very bad situation, which is believed to be typical of conditions in many wholesale concerns. It will be noted that, of all the orders in the wholesale automotive house for which the analysis was made, 13.1%, averaging over $65 each, furnished 52.8% of the total business. At the other extreme, 4.5% of all orders were under $1.00 each, averaging 60¢ per order and supplying an aggregate business of only .2% of the total volume obtained by the house from all customers. A large proportion of such small-size orders could well be eliminated without causing any substantial reduction in sales volume. Prior to such action, however, an effort should be made to increase the size of the average order by discouraging or refusing to fill orders under a certain amount (as a few wholesalers here and there are actually doing), by educating customers as to the advisability of concentrating their purchases with fewer sources of supply, by the judicious use of suggestive selling, by having salesmen spend more time with each customer, by less frequent calls on those who order in small quantities, by charging higher prices for smaller quantities, and through the general application of sound selling tactics.

Sales may also be analyzed in other than the principal ways just indicated. Sometimes they are examined by *method* of sale, showing how many orders and in what amounts were obtained by outside salesmen, were mailed into the house direct by customers, were received over the telephone, or were secured directly from customers calling in person. Another type of analysis is by *terms* of sale, showing total cash and credit business, the latter being further classified according to length of credit period, if such variations are significant to the concern.

Operating Expense Control

Good management is often said to be the cure for high operating expenses. While generally true, the term *good man-*

agement is so inclusive and elastic as to become meaningless, and very frequently relates to merchandising methods and techniques rather than to cost of operation. Consequently, it may not be inappropriate briefly to discuss in this chapter a few of the more important ways of reducing costs of doing business or of keeping them low. These are the factors which have a direct bearing on operating expenses while the methods of scientific management discussed in the preceding five chapters have a less direct influence on costs. When the costs of each service are ascertained, it may be advisable to eliminate some of them, if, in the judgment of the management, they exceed their worth.

Adequate Expense Accounting System.—To reduce operating expenses or to exercise control over them, it is first necessary to know what these expenses are. Knowledge of this type can be gained through an adequate expense accounting system, which shows the total cost of the wholesaler's services, and the true net profit he derives from his business. Not only that, but the system must provide accurate knowledge of costs of each operation and service. This requires a detailed classification of expense accounts and a careful definition of each subdivision thereof.

A Uniform System of Account Classification.—It is not sufficient to know what the costs of doing business are, either for all services combined or for each of the activities. Such knowledge, *per se,* is without special benefit. A comparison of expenses and accomplishments with other wholesale enterprises similarly functioning is needed to show whether the costs are excessive, are in line with general experience, or are below normal. To do this a standard or uniform classification of expense accounts must be adopted. Such a system has many other advantages. It provides a reliable basis for budgeting, it makes the accounting system independent of operation by any one person, it facilitates reporting to governmental agencies, and it reduces to order the chaotic practices which have developed during the early years of haphazard growth toward scientific business management.

To facilitate the adoption of accurate definitions and logical classifications of expense accounts, groups of wholesalers have developed cooperatively, through their respective trade associations, uniform systems so that every wholesaler may compare his results with those of others. Such trade associations have been compiling operating expense figures for a number of years. For example, the National Wholesale Hardware Association divides all expenses into the following groups: *administrative expenses,* which include management, office salaries, legal and collection expense, and general expense; *selling expense,* covering advertising, salesmen's remuneration and traveling and other selling expense; *warehousing and handling expense,* including heat, light, water, power, warehouse salaries and wages, packing expense, cartage and drayage, repairs on buildings, fixtures and equipment, and depreciation; *fixed charges,* such as rent, insurance and taxes; and *miscellaneous expenses* like interest and losses from bad debts. Wholesale grocers generally divide their operating expenses into selling, warehouse, delivery, office, credit and administration. The National Wholesale Druggists' Association in its studies divides expenses into receiving and shipping, city delivery, buying, storage, handling, carrying, selling, billing and pricing, and general and executive. Other wholesalers have adopted the following groupings: selling, administrative, rent and occupancy, internal handling, delivery, general office and clerical, interest and other fixed charges, and miscellaneous.

Various bureaus of business research maintained by progressive universities have assumed leadership in the collection of operating expense data. The classification adopted by Harvard for studies made of certain wholesale groups is illustrative. It provides for the following group classifications: buying, selling, operating, general management and office, and fixed charges and upkeep expenses. Publishers of accounting and stock record forms, as well as certain independent accounting firms, have contributed to a better system of expense accounts as have certain Federal Government bureaus. Thus, while there still is considerable diversity in expense account classification, the trend

is towards greater uniformity, and in any one line of business the variation is much less than that indicated.

Current Knowledge of Expenses.—Instead of waiting until the end of the year for the information concerning profits made, losses suffered, and expenses incurred, as has been customary in the past, the progressive wholesaler obtains information at more frequent intervals, usually monthly. In this way leaks and losses can be checked before it is too late, and other activities can be examined and controlled. A monthly statement of expenses and of profit and loss can be prepared without the necessity of actually closing the books. Adjustments are made for certain items of the trial balance taken off the ledger in the usual way, such as goods received but not paid for, unpaid expense, accrued payroll, depreciation, bad debts, prepaid expenses, interest accrued, taxes accrued, and such other adjustments as will make possible a correct picture of the company's accomplishments during the month.

Expenses by Merchandise Departments.—Little practical advance has been made in the field of cost analysis by wholesalers. Most of the cost data available are restricted to totals for the entire house and to detailed items of operating expense for the business as a whole. While this is a good beginning, there is need for a further breakdown of distribution costs which are incurred from selling a great variety of merchandise. It has been definitely established by the few case studies thus far made that it is more costly to sell some commodities or lines of merchandise than others, and that the variation in such costs is quite wide. Every wholesaler is cognizant of this fact, though he has no quantitative knowledge concerning it; consequently, he does not realize the gravity of the situation and has no means of determining just what specific activities are responsible for these differences in expense ratios. Therefore, no control can be had of individual performance and no effective policies can be adopted for the departmental executives. If expenses are analyzed by departments, proper control of costs of doing business can be exercised and the profitableness of different lines of merchandise can be determined.

Monthly profit and loss statements by merchandise departments are a solution to the problem. To prepare such statements, however, it is necessary to allocate the various functional expenses to each of the departments, so that each department may be charged with its proportionate share of all expenses. Unfortunately, there is no uniform procedure, even in a single line of wholesaling, for the proper distribution of expenses by departments. Because of the difficulty in performing this task accurately without indulging in many refined analyses, many wholesalers frown upon any attempt to allocate expenses. Furthermore, it is argued that some departments do not yield a sufficient gross margin to enable them to bear a proportionate burden of general or indirect expenses. One of the prerequisites of such a system should be simplicity of operation, lest the clerical cost outweigh the benefit derived from accurate knowledge. Volume of sales is often used as a convenient means of apportionment, but this often violates a second prerequisite, that of equity in the distribution of burden among the different departments. It should be pointed out that this problem is one of indirect expenses only and not of those incurred directly by a given merchandise department.[1]

While it is not intended here to cover all of the methods and bases used in allocating operating expenses to departments, the following are suggestive of those most commonly used by the wholesalers who have appreciated the value of distribution cost analysis. When a buyer purchases goods for more than one department, his salary and traveling expenses are prorated on the basis of volume of purchases for the respective departments. The cost of handling incoming freight from stations is prorated

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[1] Among the leaders in the development of expense analysis for wholesalers may be mentioned the Bureau of Foreign and Domestic Commerce and such organizations as the National Wholesale Druggists' Association. Following are a few of the studies along this line made in recent years:

J. W. Millard, "Analyzing Wholesale Distribution Costs," 1927; "Problems of Wholesale Paint Distribution," 1929; W. Alderson and N. A. Miller, "Problems of Wholesale Dry Goods Distribution," Distribution Cost Studies—No. 7, 1930; W. Alderson and F. Haag, Jr., "Problems of Wholesale Electrical Goods Distribution," Distribution Cost Studies—No. 9, 1931; E. J. Carroll, "Wholesale Confectioners' Operations," Domestic Commerce Series—No. 85, 1934; and E. J. Carroll, "Wholesale Druggists' Operations," Domestic Commerce Series—No. 86, 1934. Among the bulletins published by the National Wholesale Druggists' Association, Bulletins Nos. 2, 3, 4, 5, 8, 10, 12, and 18 are especially pertinent, as well as Special Bulletin A, all of which were published from 1929 through 1935. See also E. Wittwer, "Cost Study of a Wholesale Hardware Business," issued by the National Hardware Association of the United States. For a general discussion of the subject see J. B. Heckert and I. J. Stone, "Wholesale Accounting and Control," Chs. VII-XI, New York, McGraw-Hill Book Co., Inc., 1935.

according to weight or tonnage, or on the basis of the number of packages. Shipping and handling costs should be distributed only on goods sold out of stock; i.e., all direct or drop shipments must first be eliminated from the figures on which the allocation of this expense item is based. These expenses are usually prorated on the basis of weight or tonnage handled, number of packages, number of invoice-line extensions, or on the basis of a standard handling cost unit derived from tests and analyses. The cost per unit is then multiplied by the number of units handled for each department. By dividing total handling and shipping cost by total weight of goods sold, a per pound cost is obtained which is then multiplied by the number of pounds shipped for each department. Trucking expenses on outgoing shipments are prorated similarly. Delivery expenses are more difficult to prorate, since many variables are involved, such as the distance of routes, weight of orders and their value, and the number of orders delivered for each department. Since it is impractical to give all of these factors due consideration, allocation is usually made on some one factor, such as weight of goods delivered, number of orders delivered, number of stops made for each department, routes covered, or average line extensions.

Occupancy expense, which covers rent, heat, light, water, and power is usually prorated according to floor space occupied, although some consideration may be given to the relative values of the locations. Space is commonly figured in square feet occupied, although the cubic feet plan is to be preferred. The latter is operated as follows: divide total cost of storing or occupancy by total bulk of goods measured in cubic feet, then multiply the per cubic foot cost by the number of cubic feet of goods stored for a given department. Investment expense, including interest, insurance, and taxes on merchandise carried, is distributed on the basis of the value of average inventory. Credit and collection expense may be prorated on the basis of credit sales or total net sales if few sales are made strictly for cash. All other general expenses are ordinarily prorated according to net sales of each department, on the basis of average stocks on hand, on the basis of all expenses previously propor-

tioned, or according to gross profit secured. Sometimes office expenses are distributed more scientifically, as a result of time and motion studies, on the basis of number of lines billed, sales orders handled, and so on.

The most difficult of all items of expense to prorate by departments is that of salesmen's compensation and their traveling expenses which is the greatest single item of expense to the wholesaler. This problem does not apply to specialty salesmen who sell the goods of a single department, nor to salesmen who are paid entirely on a commission of net sales, or according to a group or department commission plan. One plan of proration is based on the gross profit of each department. Another plan calls for a distribution of this expense according to the relative difficulty and costliness of selling the goods, which is ascertained through an analysis of the results of specialty salesmen of the respective departments. A third plan provides for a distribution of sales force expense in proportion to the sales of each salesman per department; that is, if 20% of a given salesman's business was secured for Department A, that department is charged one-fifth of the salesman's compensation and expenses. A fourth plan requires that the proration be made on the basis of volume of sales secured for each department by all general salesmen rather than on the individual performance for a given department by each such salesman. While this last method is the simplest it does not take into account the relative ease or difficulty of selling different lines of merchandise, differences in gross profit margins, and varying salaries of the different salesmen.

Expenses by Individual Commodities.—The analysis of expenses by departments described above does not always provide the necessary information on the relative profitableness of different types of merchandise. Particularly is this true when a single department contains items or groups of items that are substantially dissimilar in important characteristics. Consequently, attempts are sometimes made to allocate expenses to individual items or commodities, as an aid in determining what specific items are to be discontinued, merely carried, or pushed

aggressively. Such an analysis may be made for all important items, or only for a limited number of commodities when decisions pertaining to them must be made. Through a study of this kind coupled with one of turnover by items, it may be possible to reduce the number of items carried without appreciably affecting the volume of business. The procedure in allocating expenses to individual commodities differs in no important respect from that just described for departments, except that the problem is somewhat more complicated since there are fewer expenses which are incurred directly for individual items. Normally, it is best first to determine departmental expenses prior to the further breakdown by commodities.

Expenses by Customers.—It is generally conceded that it is more costly to sell to some customers than to others. In the early part of this chapter an analysis of *sales* by customers was advocated, but a sales analysis that does not include a study of costs is inadequate. What is really needed, in addition to a knowledge of sales by customers, is a definite cost accounting technique designed to measure the cost of selling to individual customers or groups of customers. The following quotation from a recent study illustrates the interest and the progress that is developing along this line.

> Investigation shows that a large portion of the cost of serving individual customers varies directly with certain customer characteristics, and can thus be distributed to the various customers on the basis of certain operating factors. For example, the clerical and handling (movement) cost as a percentage of sales would be less for a customer with an average item purchase of $2 than it would for one with an average item purchase of $1; delivery cost as percent of sales would be less for a customer with a large average order than for one with a small average order. By arranging expenses in homogeneous groups, each of which can be distributed to customers on a single factor, it was found possible to charge each customer with only the cost for which he is believed to be responsible. In the house studied it was found that all operating expenses could logically be placed under six heads—maintenance, movement, delivery, promotion, payment, and collection.[2]

When unprofitable customers are segregated on the basis of such studies it is true that they should be subjected to close

[2] Edward J. Carroll, "Wholesale Druggists' Operations," Domestic Commerce Series—No. 86, Washington, D. C., U. S. Government Printing Office, 1934.

scrutiny, but it must not be concluded that all of them should at once be eliminated. Some of them may be carried at a loss if there is hope that they may develop into profitable accounts. In other cases, such customers may help to cover the fixed expenses and thereby reduce total costs.

Expenses by Orders.—Another type of cost analysis is by size of order. To determine the cost of doing business per order, functional expenses must first be classified into fixed and variable. Expenses may be allocated on the basis of orders which have been divided into size groups, or prorated to individual orders. The latter allows for the determination of the *break-even* point, i.e., the size of order which just covers expenses. Buying expense is generally distributed on the basis of cost of goods rather than the sales value of the order. Handling and shipping expenses vary, though not in exact ratio, with the size of the order, and hence are distributed on a weight basis. The same basis can be used for delivery expense, or each order can be made to bear an equal share. Occupancy expenses may be regarded as fixed as far as order size is concerned, and therefore apportioned equally to each order. Selling expense may be variable, for example, when commissions are paid; or they may be fixed, in which case it is distributed alike to all orders. Office expense may be distributed on the number of lines billed or equally among all orders. All other expense items are generally apportioned on the basis of sales.

Expenses by Salesmen's Territories.—To determine the profitableness of each territory, an analysis of expenses by salesmen may prove worth while. All direct expenses, including the salesman's salary, commission, bonus, and his traveling expenses are charged directly to his territory. Indirect expenses may vary according to volume of business secured by the salesman, or may be fixed and applied alike to all salesmen irrespective of volume. Indirect expenses are allocated by methods similar to those used in prorating expenses by orders.

Budgeting Expenses.—Unlike a sales budget which establishes a *minimum* of desired performance, the expense budget

establishes a *maximum* which must not be exceeded. It is based on past experience modified by other factors which establish a desired maximum relationship between expenses and sales. To be effective, the expense budget must be broken down by expense classifications. Constant checking is required to insure staying within budget limitations. The expense budget in addition to being a means of control is a program or plan for the future. It facilitates planning of financial requirements, allocates responsibility for expenses incurred, and keeps expenditures within certain limits.

Control of Miscellaneous Operations

In concluding, there are two operations, not previously covered, which should be touched upon because of the relatively heavy costs and risks which may result. These are broken-package business and returned goods.

Broken-Package Business.[3]—The control of broken-package business is a troublesome problem in many wholesale firms. When broken-package operations are centralized, the space used by such merchandise sometimes occupies an entire floor of a large building. As pointed out before, retailers have formed the habit in recent years of buying in the smallest quantities possible rather than in units of standard packages as they come from the factory. Consequently, packages must be opened, and the goods wanted by the customer counted, handled, and packed. To the cost of this extra handling must be added the expense of the floor space occupied by broken packages, the cost of packing material, and losses resulting from miscounts, breakage, and loss in weight as a result of breaking the original container. It is estimated that it costs from three to five times as much to fill and pack an order in miscellaneous broken packages as to handle goods in original containers.

To cope with this problem, wholesalers have attempted to induce manufacturers to reduce the original packages to a size commonly asked for by retailers. Some wholesalers repack the

[3] See H. J. Ostlund, "The Normal Cost of Wholesale Distribution of Drug Merchandise in Broken Case Lots," Bulletin No. 6 and "The Normal Cost of Wholesale Distribution of Drug Merchandise in Full Case Lots," Bulletin No. 7, The National Wholesale Druggists' Association.

goods received from manufacturers into convenient units and refuse to sell in smaller amounts. Other possibilities of reducing the volume of broken package business are to charge higher prices for goods bought in broken packages, to offer customers a discount for purchases in original package lots, to refuse to sell in amounts of less than standard packages, to give salesmen an extra commission for sales in original packages or a smaller commission on sales in broken lots, and to instruct salesmen to call less frequently or not at all on customers who have formed the habit of buying in small quantities.

Returned Goods.—The control of returned goods is another one of the perplexing problems of wholesale merchandising, because of the extra costs entailed. When the amount of goods returned for exchange or credit becomes excessive, it endangers the wholesaler's profit. The first task is to discover reasons for the returns. Goods may be returned for a number of reasons, but the most common of them are defective merchandise; unaccepted substitutions; a change of heart on the part of the customer, particularly when he has overbought or the price has declined; errors in filling orders; overselling by zealous salesmen; late delivery; errors in pricing; on-approval sales; and c.o.d. shipments made without first securing permission of the consignee. Some of these causes may be readily removed, others can be reduced only with great difficulty.[4]

An analysis of returned sales, based on the credit memos issued by the company, throws light on the subject. Such an analysis should be made by merchandise departments, by salesmen, by customers and by reasons. Furthermore, the returns made from each salesman's territory should be analyzed by reasons for making the returns, as a means of discovering which salesman is responsible for a large percentage of the returns, and to what extent they are caused by his zeal to load up his customers, or by his inability to close sales properly. Through such an analysis errors for which the house is responsible can be corrected, and the spotlight focused upon those salesmen and customers who may be the chief contributors to the problem.

[4] See "Returned Goods," a survey made by the Wholesale Dry Goods Institute.

PART IV—SPECIAL ECONOMIC ASPECTS OF WHOLESALING

CHAPTER 22

WHOLESALE PRICES AND PRICING POLICIES

Importance of Wholesale Prices.[1]—Prices play a dominant rôle in American economic life. The typical business man turns to the financial section of his daily paper to see what has happened to the prices of the commodities he handles. Buyers and sellers scan the wholesale price quotations from the major commodity exchanges and market centers in order to make important business decisions. Farmers depend upon the current market price quotations provided for them by the Federal Department of Agriculture. So vital is the knowledge of wholesale prices to the daily routine of business that many agencies have developed to provide price information. In addition to the agricultural market price reports, the Government, through its Labor Department, collects and compiles current wholesale and retail price data on manufactured goods as measures of industrial change. Leading newspapers, and especially the commercial press, devote entire sections to wholesale price quotations and related information. Many private agencies and economic services issue specialized price data for clients. The telephone, the telegraph, the cable and the radio are utilized in a highly organized, world-wide network of price reporting. In short, all business men are price conscious and keenly alert to the factors influencing the prices of the wares they buy and sell.

What is the reason for this universal interest in wholesale prices? What are wholesale prices and how are they determined? What economic and business functions do they per-

[1] This chapter deals primarily with *wholesale prices,* hence the term *prices,* unless specifically qualified otherwise, will be confined to that meaning.

form? These are questions which will be examined in this chapter.

Price may be defined as the money value of a specified quantity of a given commodity or service. It emerges after, and only after, a market transaction has been consummated. Its importance lies in the fact that it is closely related to costs and profits, particularly the latter.[2] Unless the entrepreneur receives sufficiently high prices for the goods he sells to cover his money outlays he cannot survive indefinitely. Unless the prices he receives include also a margin, however small, of profits for himself, the major business incentive for him is absent.

Less obvious, but more fundamental to society, as a whole, is the significance of prices as a regulator of the economic system. Since prices, in the long run, must be high enough to cover costs, inclusive of profits, prices exert a strong tendency to regulate, more or less automatically, the delicate functioning of the economic mechanism. The allocation of economic resources to appropriate uses in production as well as the distribution of the resulting flow of income is largely determined, in a competitive society, by the price-profits relationship. Profits is the chief motivating force but profits stem from prices. When prices become relatively high in one industry as compared with others, because of increased demand for the products of that industry, other factors such as cost of production remaining unchanged, profits also tend to become higher than the prevailing level. As a consequence, enterprise, capital, and labor are attracted to that field, production increases, competition is enhanced, and prices and profits tend to fall. Conversely, when demand falls off for the products of an industry there is a tendency for prices to drop until profits are reduced to such a point that production is discouraged.

These and other price functions should be of interest to students of wholesaling since the prices through which this regulatory action takes place are largely wholesale prices, determined in wholesale markets. A brief review of the theory of price

[2] The economist includes profits as a part of cost, whereas the accountant considers profits as a residuum over and above money outlays. From either viewpoint they form a part of price.

determination is necessary to a clearer understanding of what is unquestionably the central problem of wholesaling economics.

Theory of Price Determination.—Traditional economics explains *market price* determination in terms of the forces of supply and demand, and this explanation has become an accepted part of the common parlance of the market place. Briefly, this explanation assumes freedom of competition between buyers, on the one hand, and between sellers, on the other. It assumes further that, in this free market, both demand and supply schedules are highly elastic and that, as a result, the competitive drive of buyers and sellers eventuates in an equilibrium price which clears the market. In other words, a single price emerges which satisfies at the same time all marginal and intra-marginal producers and all marginal and supra-marginal buyers.[3] Few economists leave their explanation of price with this over-simplified and highly abstract statement of a most complex phenomenon, although many people erroneously attribute to them that oversight. The basic and more realistic explanation of prices uses market price analysis only as a starting point, and pushes far back into the recesses of the market to grasp and utilize the varied practices which there prevail in order to build therefrom a sound and adequate theory of how prices are actually determined in the rough and tumble world of business.

Thus the careful economist explains that the actual market is seldom a competitive market, but one in which the market forces range the full gamut from a large measure of competition to what approximates complete monopoly. Similarly, it is pointed out that demand and supply schedules are seldom

[3] *Marginal producers* or sellers "are those who offer to sell some or all of their offerings only when, and because, actual price has risen to the marginal supply price. In other words, marginal sellers are the ones responsible for the marginal increments of supply. Their offerings would not be made, if price were lowered." (F. M. Taylor, "Principles of Economics," p. 276, New York, The Ronald Press Co., 1921). Marginal producers are, therefore, in such a strategic position that, by withholding their increment of supply from the market until they receive what they consider an adequate price, they can exert a decisive influence upon the actual price. *Intra-marginal producers* have such low costs that they derive additional profits from a price high enough to retain in the market the marginal producers. Marginal buyers are those who are able and willing to pay only a price high enough to cover the demands of marginal producers and who would actually withdraw from the market if price rose above that point, either going without the product or turning to lower priced substitutes. *Supra-marginal buyers* would be willing to pay a higher price for the product if necessary but do not need to do so since an adequate supply is forthcoming at a lower price.

completely elastic but instead have a wide range of elasticity. It is recognized that the same commodity in the same market may have, not a single price, but a number of prices prevailing at the same time, depending upon who the buyer is. Moreover, complete discussion of price determination does not stop with the superficial forces of supply and demand but looks behind them to the more permanent forces of the utility of the goods, on the demand side, and to the variation in cost conditions which underlie supply. In the final analysis, price theory leads back to the explanation of the prices of the basic economic factors of production, the wages of labor, the rent of land, interest on capital, and profits of enterprise.[4] Furthermore, a complete discussion of prices investigates the price system as a whole. No price is independent of a great many other prices; in fact, the price structure consists of a complex web of interacting and reacting prices, so integrated that it is difficult, if not impossible, to unravel their pattern and understand their manifold ramifications. Business men are constantly making disastrous decisions because some change in the price structure which seems remote to their affairs, is not taken into consideration. Thus, the imposition of a tax on whale oil was allowed to pass unchallenged by the automobile industry since it appeared to have no direct relationship to the normal business and price structure of that industry. It was discovered, too late, that this tax threatened to destroy the Norwegian market for American automobiles since whale oil exports to the United States constituted the chief source of dollar exchange with which automobiles were purchased by that country.

Actual Price Determination

The Rôle of the Wholesale Markets.—Price determination is preeminently a function of the marketing mechanism, and more particularly of the wholesale market, which embraces the broad field of wholesaling as defined in Chapter 2 and elaborated in subsequent discussions, particularly in Part II. As Dr. David Friday so trenchantly puts it, "Prices are the grist that

[4] For a comprehensive and realistic analysis of price theory, see F. M. Taylor, "Principles of Economics," Chs. XIX-XXXI, New York, The Ronald Press Co., 1921.

markets grind." [5] It is in wholesale markets that the major forces of supply and demand focus. The importance of wholesaling to the problem of price determination is apparent when it is realized that, actually, the field of wholesaling includes a series of interrelated markets, extending from the producer on the supply side to the retailer on the demand side. Thus, there is the producer (manufacturer, mine operator, or farmer)—wholesaler market; the producer-broker market; the broker-wholesaler market; and the wholesaler-retailer market. There are variations of these, such as the producer-chain store market, the manufacturer-department store market, the importer-wholesaler market, the producer-industrial consumer market, and many others, all parts of the wholesale marketing structure. It is in these markets, all of which are more or less closely interrelated, that wholesale prices are determined, and, since wholesale prices are basic to the entire price structure, it may be said that the wholesaling structure is essentially the price-determining sector of the economic system. This statement is true to a large measure, even of retail prices (nominally set in the retailer-consumer market), because the really potent influence which consumers exert on prices is transmitted through the retailer into one or another segment of the wholesale market where it is set over against the producer influence on the supply side. Moreover, the retail prices of most commodities consist of the wholesale prices plus as much of the retailer's customary gross margin as the latter can secure. Even where the retail sales price is used in setting the producer's base price there is no escaping the fact that the price is actually set in a wholesale market with the producer or wholesaler on one side and the retailer on the other.

Prices then, with some few exceptions, may be said to emerge from wholesale markets which are composed of groups of more or less competing sellers on the one hand and more or less competing buyers on the other. According to this hypothesis these selling and buying groups are for the most part entrepreneurs or business men whose motives are primarily to secure profits. They are strongly influenced by this motive in

[5] "Extension of Value Theory," *Quarterly Journal of Economics,* p. 201, Feb. 1922.

the actual steps which they take in formulating their price policies.

Complexities of Pricing Policies.—The problems of actual price determination are burdened by a multitude of complexities which have interfered with their scientific analysis. Among these the question of *pricing policy* stands out as particularly challenging. Very few studies have been made of the wholesale price structure and its actual functioning. Among those that are available the most exhaustive were prepared by the Division of Review of the defunct National Recovery Administration. The problems raised by such studies are well illustrated in the following quotation from the comprehensive analysis of open price filing[6] in the electrical manufacturing industries.

> The light thrown upon economic processes by those experimental studies, seems chiefly to expose an area of ignorance. No such records have ever been available before and therefore no such studies have been made. But even these few studies raise some fundamental problems. Are these seventeen industries isolated phenomena or do they typify other industries? If such price behavior appears elsewhere, how does it differ in kind and in degree? Would observation over a longer period of time disclose evolutionary trends not evident in so short and so disturbed a period? What are the implications of their many variations upon consumers, on competing industries? What basic economic characteristics appear to define the form of the price structure? What elements in the price structure seem to be harmful to the industry or to the entire economic system? What forces of economic control, public or private, are necessary to insure price behavior which will encourage economic health? These and many other problems emerge as one considers the record.
>
> What further study is needed? The answer is simple—similar and better examinations should be made of every other industry with a complex price structure. Any existing compilations of industry prices should be subjected to careful study. The records of every industry engaged in price filing should be analyzed. Just as industries have been encouraged to study their costs, they should be encouraged to submit their price structure to scientific examination, in their own interest. Eco-

[6] Price filing is an arrangement by agreement among the members of an industry to file or report currently either their *list prices* in advance of sales or their *actual prices* on past sales to a designated central agency, usually a trade association, which makes the information available, without disclosing individual companies, to the industry and sometimes to the public. The theory behind price filing is that a wider knowledge of price quotations or of actual prices in the industry will tend to promote freer competition.

nomic problems cannot be solved apart from the facts of economic processes. Certainly, knowledge of the behavior of prices is essential to those determining individual business policies and even more so to those determining public policy.[7]

General Bases for Pricing Policies.—Despite this rather discouraging statement on the scarcity of data, there is enough information from this and other studies to indicate some of the major problems of pricing as practiced in the modern business world. Pricing policies are actually determined by business men in accordance with more or less definite formulæ. From the welter of conflicting practice, two general methods emerge for the determination of price quotations. The first of these is for the producer to establish list prices on the basis of costs. The second method, frankly recognizing that competition in certain cases sets the price, is to watch the market and to quote prices consistent with market prices.

The first method requires an adequate system of cost accounting by the producer, as well as knowledge of the margins of the various distributors. The manufacturer who follows this pricing policy first figures his probable volume of production for the year or season. This is essential, since operating costs vary with the scale of production. He next determines the unit cost of production for the quantity which he plans to produce, including both direct production costs and overhead or fixed expenses. To this item must be added the costs of distribution and selling which the manufacturer must incur. These figures, when added together and increased by what he considers a reasonable margin of net profit, provide the manufacturer's list price.

This is the price which manufacturers expect to receive f.o.b. factory. If the practice in the trade is to sell through wholesalers, it is common to add to the manufacturer's price an amount equivalent to the wholesaler's gross margin including transportation costs, and to quote a wholesale price which is essentially the wholesaler's selling price, but which is subject to a discount equivalent to the wholesaler's margin. This process

[7] Willard L. Thorp, A. H. Caesar and F. W. Powell, "A Study of Open Price Filing in the Electrical Manufacturing Industry," pp. 191-192, Mimeographed Report, National Recovery Administration, Division of Review, Mar., 1936.

may be carried even further where commodities are normally quoted in terms of the retail selling price, in which circumstance the price offers must be increased by the retailer's gross margin so that it will be large enough to allow discounts for both retailer and wholesaler. This pricing policy is followed as a general basis by manufacturers in many industries. However, the producer who uses it has a better chance of receiving actual prices as high as his list in those lines where the product has a high unit value, is complicated in its construction, or where the producer enjoys a monopolistic or quasi-monopolistic advantage.

The second method, that of following the market, is much simpler as far as the determining of actual price quotations is concerned. It is necessary, however, for the producer who follows such a policy to work back from the price offer to be sure that he can keep his costs low enough to yield a profit. He, therefore, must also employ cost accounting, not to determine his price offer, but to control his operations so that his costs will not exceed the competitive market price.

Actual Pricing Structures.—The National Recovery Administration's experience with price control has been subjected to a number of studies both public and private, which reveal a very interesting record of pricing practice in various industries. The following comments taken from the study of prices in the electrical manufacturing industries are instructive since they indicate the wide variation in actual pricing practices.[8]

> In many instances, companies actually had no formal price structures in the pre-code days, but established prices for customers without any basic classification or uniformity of treatment.
>
> Furthermore, even in the groups where the use of published price lists was customary, the pressure of the depressed state of the market had resulted in the development of special, variable, and secret discounts so that the published price list was merely the starting point for the process of bargaining.

With this qualification in mind, an examination of some of the price offerings filed by the various industries within this trade provides a realistic description of pricing policies. This will be followed by a brief examination of the actual bases utilized by selected industries in arriving at their price offers.

[8] *Ibid.*, pp. 7, 75, 102, 453, 513, 587, 594, 990.

The original pricing structure in the *electric fan* industry showed that "Most quotations are on the basis of list price, but some few manufacturers, especially those selling fans in the lower price brackets, quote on a net basis." [9] In the manufacturing of *radio receiving tubes* one company sent in the following concise filing in the latter part of 1933: a general price list quoting list prices with discounts to distributors of 40-25-5% and to dealers of 40% and 5% with terms of 2%, 10 days, net 30 and delivery f.o.b. either Jersey City, New Jersey; Chicago, Illinois; or San Francisco, California. Another company in the same industry reported:

> A general price list showing dealers' list price and manufacturer's net price, with discounts of 25% from dealers' price to jobbers and 10% above manufacturers' price to department and chain stores. In addition to their regular first line tube this company has for years purchased job lots from various sources, the same being sold as low grade tubes, under their various brands. Prices are regulated entirely according to cost and grade of tubes. These tubes are sold usually for cash with short guarantee; delivery and price regulated by manufacturer's inventory.

An original filing of a company in the *industrial lighting field* shows the use of standard discounts as part of their pricing policy.[10] The foregoing examples of actual price *quotations* are the outward manifestation of the pricing process. What lies

[9] An individual firm within this industry reported the following first price filing which is indicative of the state of pricing before the operation of the code:
"General price list, date 12/5/33 including (48) different models.
Discounts:
Dealers—less than \$50, 35%; over \$50, 35-5%.
Users—6-24, 15%
Users—25-49, 25%
Users—50 and over, 35-5%
Government Institutions—35-5%
Chain, Commercial and Industrial—35-5%
Industrial Organizations—less than 50 fans, 25%
50 fans or over, 35-5%
Terms—2-10 NET 30
Delivery F.O.B. Factory."

[10] "Price list applying to company catalog.

DISCOUNTS

Quantities	Distributor	Jobber	Contractor, Dealer, or Large User	Consumer
Less than standard package...	30%	25%	20%	List
1 standard package or more...	48%	37%	33%	10%
5 standard packages or more..	48%	42%	39%	20%
50 standard packages or more..	48%	42%	42%	30%

Terms:
Net 30 days or 2% allowed for cash on invoices dated 1st to 15th if paid on 25th, on invoices dated 16th to 31st if paid on 10th prox.
Shipping:
F.O.B. factory or warehouses with freight allowed to destination on all shipments weighing 100 lbs. or more. No allowance for shipments weighing less than 100 lbs."

behind these price quotations? What formulae determine the list prices and their discounts? As indicated above, there are two general bases which may be briefly described as *cost* and *competition*. A recent study of price making, based upon a few reports gathered from industrial firms,[11] reveals a range of business in which the policy of basing price quotations on *costs* is the dominant one. The following excerpts are illustrative of this method. A manufacturer of tires, tubes, and accessories reports that the business philosophy of his concern is that of "building the best product and letting the price fall sufficiently high to show a profit, rather than setting a price and building the product to fall within that price range."

Another factory, producing work clothing and overalls, gives the following formula for setting prices.

In establishing prices we determine the following:

1. Cost of materials.
2. Cost of direct labor.
3. Factory overhead; estimated at 27½% of the amount spent for direct labor (and consisting of factory supervision, incidental labor, factory rent, power, water, depreciation and miscellaneous factory expense). This constitutes our factory cost.
4. To this factory cost is added 33⅓% to cover distributing expenses and profits. On the above basis, under normal conditions, we hope to make a profit of possibly 5% on sales.

A miller of wheat flour and grain products states that it is a definite policy of his firm "that no business must be accepted which does not reflect the total of the cost factors." Costs are figured on raw materials prices plus conversion costs, to which is added the distribution expense.

The second method of determining quotations, i.e., mainly as a result of competition, differs from the other only in degree. All producers, probably without exception, have to take into consideration competitive forces of various kinds. For the type of manufacturers just discussed, the matter of competition is not very pressing, and, as has been pointed out, price offers are built up from costs. There are industries, however, in which business is keenly competitive, and selling prices are definitely

[11] Hugh E. Agnew, "Fundamental Price Making," New York University, 1936.

fixed by the market, so that any attempt to sell at a higher price based on a higher cost of production would fail. In these businesses the practice is to take what they think the goods can be sold for as the starting-point, and endeavor to keep costs of production and distribution sufficiently low to leave a profit. If estimated costs are too high to accomplish this purpose, the pricing process is drastically revised and methods of production are readjusted to bring the list price down to a competitive level. The following quotations from the study mentioned immediately above afford examples of these practices.

A manufacturer of ladies' fine shoes reported the following steps in building his price offers:

1. Estimate sales by lines of shoes.
2. Determine price levels for various lines.
3. Set up temporary estimated costs to determine grades of materials to be used.
4. Set up permanent budgets on material, direct labor, expense and profit.
5. Build samples for various lines and figure prices on above budgets. If prices do not fall within predetermined price lines, samples are thrown out or changed to meet requirements.

A manufacturer of refrigeration, radio, and automobile accessories shows both methods of pricing used by the same company.

In refrigeration and radio, prices are practically fixed by the dominating factors in the industry and unfortunately, rather than being able to build your product and setting your price accordingly, it is necessary to work back from the price which is set by competition and endeavor to manufacture at a price which will enable you to give the customary trade discounts and still retain a profit.

As to automobile accessories sold through .... (jobbers and dealers)—here we know our fixed discounts which have to be given to jobbers, and when our costs have been arrived at we figure our selling price by first adding the margin of profit we require; taking that as a base, we fix the selling price which will give the jobber a discount of 50% and 10%, the dealer 33⅓%, and our net, equal to the cost, plus the margin of profit which we are entitled to.[12]

These two general methods of pricing are not only found in the field of manufacturing, where it is normally assumed that

[12] *Ibid.*, pp. 14, 19, 22.

the producer has much greater leeway in determining prices, but also in agriculture where ordinarily the individual farmer has little or no voice in arriving at his own prices, but rather accepts the prices which are determined for him in the wholesale markets, frequently by world-wide forces of demand and supply. An example of the latter is in the prices of goods sold on the commodity exchanges which serve as a basis for determining price offers to wheat and cotton farmers with little or no regard for the costs of production of individual farmers. On the other hand, however, there are the exceptional examples of producers of unusual products such as the breeder who raises a rare strain of cattle. This farmer is able to determine the price at which he will dispose of a particular animal on essentially the same basis as the monopolist or quasi-monopolist of a manufactured commodity, since each individual animal is unique. This type of farmer is, therefore, apt to charge as high a price as the market will bear.

The Emergence of Actual Prices.—The foregoing analysis of pricing policies indicates the position of producers and middlemen on the *supply* side of the various wholesale markets. Actual price determination, however, must recognize that there are two sides to every market. Buyers as well as sellers, in wholesale markets, are actuated by the profit motive. They are anxious to secure as low prices as they can. Their price bids, however, are conditioned upon a variety of practical business considerations. If they are middlemen, they must take into account the urgency of their immediate requirements for a particular commodity. For example, a wholesale grocer who is out of sugar, while his customers are clamoring for it and taking their orders to competitors unless they get it, is not in as strong a position to bargain for a lower price as he would be if he had a month's supply on hand. An industrial consumer who has orders booked for his products at satisfactory prices may be more liberal in his bidding for raw materials or equipment than he would be if he were buying only for future stock or in order to keep his plant in operation until his market revived. If the buyer's operating or selling costs are high, he may be forced to bargain more closely

for materials than if he is a low cost operator, who is not so closely pressed by competition. The point to emphasize is that there are as many, if not more, reasons behind the buyer's price bid as there are behind the seller's price offer. Actual wholesale prices emerge as a result of bargaining, not in the abstract, but concretely between the salesman and the buyer, often in the office of the latter. Unlike the bargaining which takes place in the typical retail store where the one price policy predominates and the customer normally pays the price asked or goes without, the bargaining in the buyer's office is more like the practice in an Oriental bazaar. The seller states his list price. The buyer counters with a much lower bid. A compromise is reached at a point somewhere between these extremes, the contract is signed and a wholesale price has been determined. In practice many variations enter into the process to complicate this over-simplified description. Such questions as special quantity discounts, secret rebates, advertising allowances, and free deals have played a part in the bargaining process in the past.[13]

Evasion of Competition.—The foregoing illustrations indicate a wide range of possibilities in the determination of prices from the extreme of free competition to that of monopoly. There are in the business world a great many variations between these extremes, and the determination of price in particular transactions is, therefore, one of the most difficult problems facing the business man. Most business men are very eager to have a fully competitive market in which to buy the raw materials and services which they employ in producing their own goods or services. They are less eager for competitive conditions in the market in which they sell, and, consequently, they are ever on the alert for opportunities to evade the consequences of a freely competitive market. In their efforts to evade the full force of competition in the markets in which they sell, producers are at great pains to get their products into a monopolistic or semi-monopolistic position. Through the establishment of brands, through advertising, and by the injection of minor variations into their products, many of which are staple com-

[13] Whether or not such practices will continue since the passage of the Robinson-Patman Act cannot be determined at this time.

modities, some producers are able to place their goods in a preferred price position. There are in addition, of course, a good many commodities which are actually distinctive enough to give their producers a substantial leverage in setting prices. For example, some goods may be monopolistically derived from patents, others may have monopolistic characteristics based on secret formulae or processes, while some may have the advantage of a naturally restricted supply. For other commodities monopoly or quasi-monopoly conditions prevail because of the presence of a few very large-scale producers in the industry who dominate the pricing process and keep the smaller producers in line through fear of possible cut-throat competition. A good illustration from the steel industry is provided by the following quotation:

> The Sales Manager of Jones & Laughlin (steel company), large as it is, stated that it could not sell below the prices of competitors, as to do so would bring about a ruinous competitive condition, that it desired to obtain as high a price as its competitors would permit, and that it could not obtain a higher price than that of competitors. He also stated that his company, because of its smaller size, felt compelled to follow the prices of the U. S. Steel Corporation. Confirmation of this situation is found in the frank admission of the President of the U. S. Steel Corporation, that his company generally set the price of steel.[14]

Limitations on Free Pricing.—Even for monopoly items, however, competition cannot be ignored although it may be *indirect* rather than *direct* competition. There are very few commodities for which there are no possible substitutes. Coffee, tea and milk are quite different products, yet they are offered as alternatives on the restaurant bill of fare. Automobiles and houses, dissimilar as they are, compete with each other for the consumer's dollar. The very slow recovery of the building industry after the depression of the early 1930's when contrasted with the spectacular recovery of the automotive industry was undoubtedly a resultant of the failure of the former industry to work out price adjustments acceptable to consumers. The automobile producers, by improving their product and reducing

[14] Report to the President on Steel Sheet Piling, Federal Trade Commission, p. 6, June 10, 1936. See also F.T.C. Decisions, Vol. VIII, p. 32, par. 12i.

prices, secured much business that a more aggressive housing program might have captured.

It should be clear from the foregoing discussion that the free will of the producer enters into price determination only in exceptional cases. He is bound to observe traditional customs and trade practices in price quotations. The actual prices quoted by manufacturers may vary from the one extreme of f.o.b. factory, to the other of retail price to the ultimate consumer. Some manufacturers have customer classifications with different prices for each category of buyers. Thus there may be one price to wholesale dealers, a second to industrial consumers, and a third to chain systems.[15] There may also be a range of prices on the same commodity based upon the quantity purchased. This is usually worked out through a schedule of quantity discounts from a base price. Again, there may be discount schedules based upon terms of payment, as cash, 10 days, 30 days or longer. Interest may be charged on overdue accounts which is a further complication of the problem of pricing. Special discounts, hidden discounts, advertising allowances, free deals, excessive services, and other related devices have the effect of reducing the quoted base price to selected buyers.[16]

In certain industries, such as steel and Portland cement, the selling price offer is determined by a *basing-point system.* The market is divided into areas within each of which the price quoted by any producer is the cost of production at a specified point within the territory plus the transportation charge from that point to the point of sale or consumption.[17] Thus, under the so-called Pittsburgh-Plus pricing system which formerly prevailed in the steel industry, the price of steel products was the Pittsburgh price plus freight charges to the sales point. A producer in Chicago was compelled to sell at this price even though his customer was in Chicago. While the Pittsburgh-

[15] See Federal Trade Commission Chain Store Reports on Special Discounts and Allowances. Senate Documents 86, 89, 94, 73rd Congress, 2nd Session. Washington, D. C., U. S. Government Printing Office, 1934.

[16] See Leverett S. Lyon, "Advertising Allowances," 1932; "The Economics of Free Deals," 1933; and Leverett S. Lyon and Victor Abramson, "The Economics of Open Price Systems," Washington, D. C., The Brookings Institution, 1936. Many of the practices mentioned in this section will be modified by the Robinson-Patman Act.

[17] For a description of the territorial divisions under the steel sheet piling basing-point system, see "Report to the President on Steel Sheet Piling," p. 18, June 10, 1936.

Plus system has been displaced as such, the principle is adhered to in the present steel market.[18]

Pricing Problems of the Wholesaler.—In the actual pricing of commodities, the wholesale distributor is faced with a set of problems similar to those of the producer. It might seem to the uninstructed observer that pricing should be a comparatively simple task for the wholesaler. He pays a specified amount to the producer, and his operating costs are, or should be, known to him. It would not appear to be a difficult task to add these items, include a margin for net profit and arrive at the price he wishes to charge the retailer, industrial consumer, or other customers. There are a number of reasons why the solution of the wholesaler's pricing problem is not as simple as this. In the first place, competitive pressure is, as we have seen, very keen in the wholesale field. There is tremendous competition, not only among wholesalers of various types, but between wholesalers and direct-selling producers, and between wholesalers and direct-buying retailing groups and industrial consumers. Under such competition the wholesaler may be compelled to offer prices on certain commodities which do not net him any profit margin, and which may not even cover all of his operating costs. There is, moreover, the same technical difficulty, of determining the operating costs of handling each commodity, that the manufacturer faces.[19] Total costs of running the business may be determined quite easily, but the problem of isolating the individual costs of selling each of the thousands of items carried by the average wholesaler is a stupendous task. It is not reasonable to assess an over-all cost figure, based on slow moving and quick turnover items combined, against every item, since rapidly selling goods can be handled at lower costs and the mark-up should take this fact into consideration. The belated development of distribution cost accounting is now throwing light on the solution of this problem.

Other complications confront the wholesaler in his determination of actual price offers. He, as well as the manufacturer, has

[18] For an excellent discussion of the basing-point system, see D. C. Montgomery, "Basing-Point Prices," p. 9, *The National Marketing Review*, Vol. I, No. 1, May, 1935.
[19] For a discussion of this problem, see Chapter 21.

to contend with established trade practices. He must allow for quantity, trade, and other discounts as well as for variations justified by differences in handling costs. He must also distinguish between his customers and adjust his prices or his discounts on the basis of whether they buy for cash or on credit, are industrial, institutional, or retailer customers, or are entitled to freight allowances. The wholesale market, moreover, is highly sensitive to price changes and the wholesaler is faced with the necessity for continually altering his prices. Wholesalers' price catalogs are soon out of date and must be frequently revised. Many wholesalers meet this problem by printing base prices followed by a series of discounts in their catalogs, and as prices change, the discounts are revised and new discount sheets issued.

The Behavior and Regulation of Wholesale Prices

Actual Price Behavior.—In the foregoing paragraphs, which indicate the scope of the problems of pricing and price determination faced by producers and wholesale middlemen, the discussion has centered about price-making forces as they operate in what is widely assumed to be a competitive theater of action. There is no little controversy over the question of the degree of competition which really obtains in business. One school of thought looks at the actual behavior of prices and arrives at the belief that there is a rather small measure of real competition. Another group, examining the same data, reaches a contrary conclusion. The final decision rests upon the criteria of evaluation, and in the conscious or unconscious bias of the observer.[20] Much work remains to be done in this field before scientific conclusions are reached. In the meantime, the data on wholesale price behavior are useful tools in determining business trends, both cyclical and seasonal, in studying shifts in the value of money, and in comparing different segments of the economic structure.

One of the most exhaustive studies of price data in recent times is that made by Professor Frederick C. Mills, of which

[20] For an excellent discussion of some of the basic factors of competition, see J. L. Fly, "Observations on the Anti-Trust Laws, Economic Theory and the Sugar Institute Decisions: I," *Yale Law Journal*, pp. 1339-1372. Vol. XLV, No. 8, June, 1936.

it has been said that "it is the pioneer effort to explore, with all available statistical instruments, the recesses of the labyrinth of prices." [21] The objectives of this study, according to Professor Mills, "are, first, to secure a fuller understanding of the behavior of individual commodity prices and, secondly, to increase our knowledge of the working of the price system and of the interrelations between its component elements." [22]

Existing price data are subjected by this able technician to a *third-degree* of statistical methodology, and forced to reveal a multitude of facts about their actual behavior from year to year, from month to month, and even within the month. Quantitative measures of the variability of the wholesale prices of commodities are evolved, which permit valid comparisons between commodities, and between various sections of the country for the same commodities. In concluding the volume, which constitutes but the first part of a larger study, the author points out two important facts, first, that there are "wide diversities in the behavior of the prices of individual commodities . . . which present themselves as troublesome complications" to the student of prices who may seek for uniform underlying consistencies; and, second, that there is some evidence of "the existence, among the diversity of price movements, of just those uniformities for which the scientist searches in attempting to reduce masses of facts to understandable terms." [23] A casual examination of the behavior of wholesale prices, as evidenced by this study indicates the presence of a substantial measure of competition in the industries of America. In view of an evident lack of competition in some parts of the economy, however, additional study is necessary before conclusions can be drawn.

A more recent analysis of actual price behavior, which is more concerned with the underlying causation of price fluctuations, or the absence of them, was made by Dr. Gardner C. Means, economic adviser to the Secretary of Agriculture. This study contrasts price behavior for two major groups of commodities, those in which a comparatively high degree of competition prevails, and those which Dr. Means designates as

[21] W. C. Mitchell in foreword to Frederick C. Mills, "The Behavior of Prices," New York, National Bureau of Economic Research, Inc., 1927, p. 7.

[22] *Ibid.*, p. 31.

[23] *Ibid.*, pp. 438-439.

"administered." [24] The accompanying charts reveal graphically what has taken place in the actual price structure for agricultural commodities, agricultural implements, consumers' perishable and semi-perishable goods, and capital goods. Agricultural prices responded, as might be expected in accordance with theoretical price analysis, to the forces of a highly competitive market. Production was continued on a fairly even

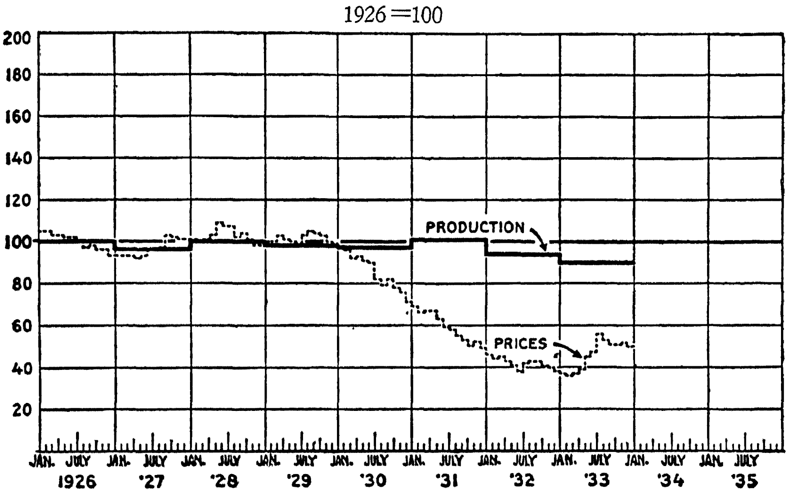

Figure 29. Prices and Production for Agriculture, 1926-1933
(U. S. Department of Agriculture, Bureau of Agricultural Economics)

plane between 1926 and 1932. Prices held to their level until early in 1930 after which they declined steadily, reaching a low point in March, 1933. This was a natural resultant of maintained supply in the face of a demand which was diminished by declining foreign markets and depression conditions at home. Prices dropped some 50% before there was any decrease in production and it was not until there was a further reduction in 1933, due partly to the Agricultural Adjustment Administration program of the Federal Government, that agricultural commodity prices strengthened (see Figure 29).

A good example of the theoretical explanation of the incidence of controlled supply upon the price structure is shown in

[24] "Industrial Prices and Their Relative Flexibility," Senate Document No. 13, 74th Congress, 1st Session, Washington, D. C., U. S. Government Printing Office, 1935.

Figure 30. The producers of agricultural implements chose to maintain their prices at a fairly consistent level. This would have been impossible, had production been maintained at or near capacity as it was in agriculture. Production was, therefore, successively reduced, as demand fell away, beginning early in 1930 and reaching a low point in the summer of 1932. Responding to the increase in agricultural prices, which meant more purchasing power for farm implements, and, hence, increased demand, production was once more accelerated. Prices

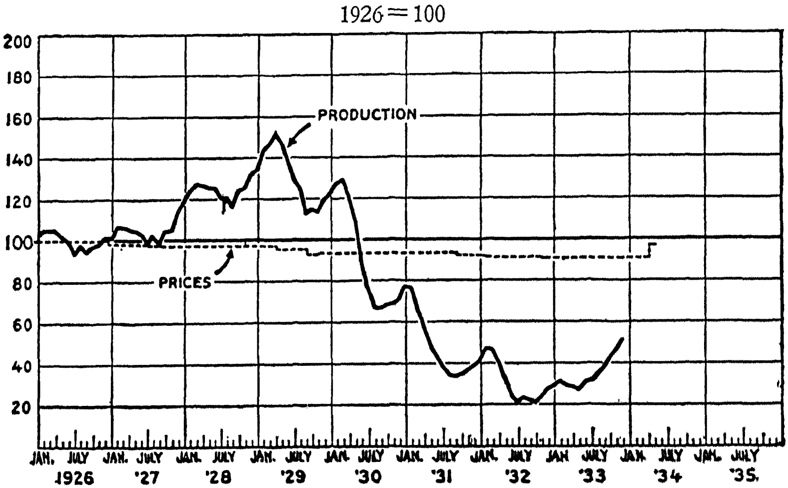

Figure 30. Prices and Production for the Agricultural Implements Industry, 1926-1933
(U. S. Department of Agriculture, Bureau of Agricultural Economics)

remained unchanged, however, until early in 1934 when they were raised slightly. Very similar examples, but not so extreme, are found in Figure 31, showing changes in prices and production for selected consumers' goods, and corresponding data for capital goods.

Dr. Means attributes the inflexibility of certain prices to control exercised by producers in industries, which, if not monopolistic, are nevertheless in the hands of a relatively few large-scale operators. He terms prices established by such industrialists as "administered prices" and it is his thesis that such prices are dangerous to the entire economy and call for govern-

mental attention. Apparently he assumes that a laissez faire economy in which prices are determined in the market by the law of supply and demand is desirable as an ideal but practically impossible since it could only be achieved by the breakdown of large industrial enterprises into a multitude of small-scale com-

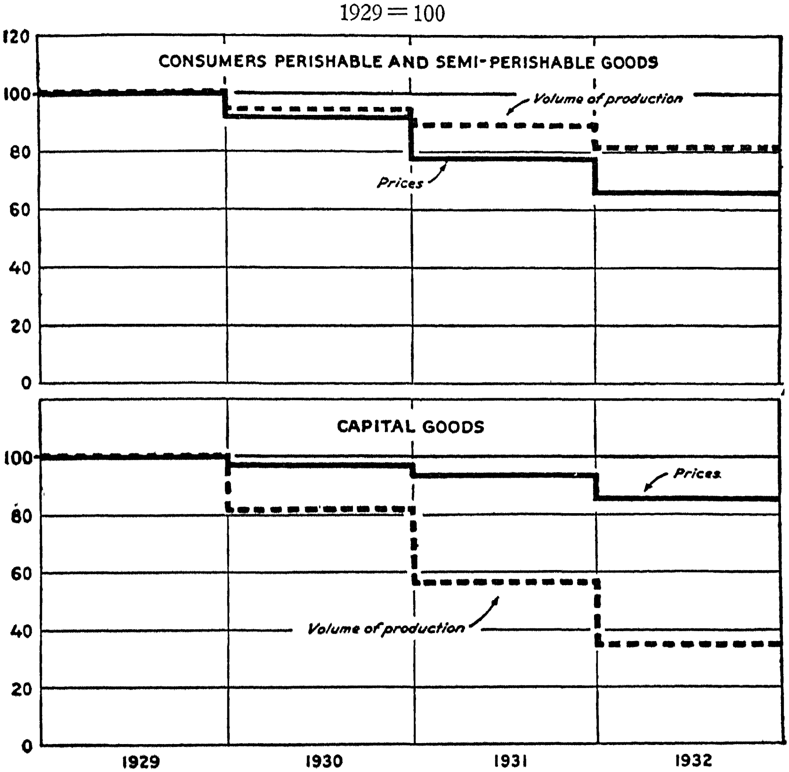

Figure 31. Relative Decline in Prices and Production, 1929-1932
(U. S. Department of Agriculture, Bureau of Agricultural Economics)

panies, a proposal which he disapproves. He suggests as an alternative that the market mechanism be supplemented with such institutional arrangements as will keep the economic machine running without the automatic control of prices. This is an interesting proposal in view of the history of the Government's attitude towards price control in the United States.

Prices and the Government.—The people of this country, through organized government, have always insisted that the competitive principle be observed in business and that it is a function of government to enforce it. This philosophy has resulted in the anti-trust laws and in the establishment of the Federal Trade Commission to sterilize any monopolistic tendencies or trade practices which are subversive to free competition, or which are in restraint of trade.

It has been recognized, of course, that competition will not fit the pattern of all industries. Whenever an industry is affected with a public interest, as are railroads and public utilities, and there are conditions present in those industries which tend toward monopoly, the state has insisted upon their regulation, not only of prices (rates) but of services as well.[25] What are the implications for the actual price-making process of this essential intervention of the Government, especially in view of recent developments?

In the first place, to insure freedom of competition is a formidable rôle for the Government to perform, although possibly less formidable than to undertake comprehensive regulation.[26] A part of the difficulty is inherent in the attitude of business itself. The typical business man's inconsistent position has already been noted. He is very insistent that the prices he *pays* be determined by full and free competition, while at the same time he sees no incongruity in working to prevent free and untrammelled competition from determining the prices he receives.[27] When the National Recovery Administration was established in 1933, the Federal Government sought to provide a basis for fair competition for all by setting up minimum wages and standards of labor. It was the aim of the Government, by making it illegal to cut wages below the minimum set in the codes, to prevent business from cutting prices at the expense of labor. The theory is essentially sound and should

[25] In times of stress governmental price fixing of commodities has also been utilized. The fixing of the prices of wheat during the War, and the Federal Farm Board and A.A.A. price-fixing policies are examples.

[26] For a discussion of the difficulty of administering price control by the Government, see George Terborgh, "Price Control Devices in National Recovery Administration Codes," pp. 21 and 37, Washington, D. C., The Brookings Institution, 1934.

[27] The Code hearings before the National Recovery Administration and Agricultural Adjustment Administration often afforded examples of this position.

have been accepted by the great majority of honest business men. Instead of welcoming the offer of the Government, however, business men hurried to Washington and insisted upon their own definition of controlled competition, which was essentially a guarantee of profits through price fixing. They insisted that the National Recovery Administration give them many impractical provisions in their codes before they would agree to accept the wage and hour regulations which offered them the only sound solution of their competitive problems.[28] Oftentimes during the code-making period of the National Recovery Administration "provisions not considered wise by the Administration were nevertheless, 'under heavy pressure from business groups, written into codes in the expectation that they would probably demonstrate the unwisdom even to their sponsors in a brief period of code operation'." [29] Generally, business men endeavor to avoid competition in price wherever it may interfere with profits. The difficulty which the Government has in attempting to enforce competition which most business men are trying to avoid or limit, is thus explained. It leads to another complicating factor in actual price determination.

The keen desire of business men to evade the consequences of competition has led to concerted efforts by them to maintain prices both before and since the National Recovery Administration without violating the anti-trust laws. Efforts have been made through open-price agreements, through tacit understandings between the leaders of an industry, through gentlemen's agreements, and through open-price filing, to arrive at some measure of legal price control. Most of these endeavors have proved to be abortive because they failed to include all of the industry, because a few refused to abide by the agreement, because buyers were not considered, or because they bordered so closely on the illegal that they received warnings to desist from the practice. These are additional complications in the actual process of determining prices, and they affect producers and distributors alike.

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[28] See Chapter 29 for a discussion of the National Recovery Administration wholesale codes.

[29] Herbert F. Taggert, "Minimum Prices Under the National Recovery Administration," p. 18, Michigan Business Studies, Vol. VII, No. 3, Ann Arbor, University of Michigan, 1936.

CHAPTER 23

EMPLOYMENT AND WAGES IN WHOLESALING

Employment Opportunities.—Wholesaling not only provides a substantial volume of current employment, but also appears to be one of the few remaining sectors of our economy in which vocational possibilities are expanding. The downward trend of occupational opportunities in agricultural and manufacturing industries, brought on by technological progress, has made new opportunities essential to the fuller employment of our population. The service industries and distributive trades, of which wholesaling is an important division, have absorbed much of the slack in employment in recent decades, and it is to these groups that we must turn increasingly for the employment opportunities of the future.

Employment Trends

Commercial Travelers.—Practically the only source of data on employment in wholesale trade for earlier years is the United States Census of Occupations. Occupational statistics were collected by the Government as far back as 1820, but at that time only very broad classifications were attempted. A little later statistics for a few specific occupations were made available. For example, data on the number of commercial travelers in the United States were reported as early as 1870. This classification is preeminently a wholesaling category since commercial travelers, whether working for manufacturers or wholesalers, are very largely engaged in completing wholesale transactions. In 1870 there were reported 7,262 commercial travelers; by 1880 the number had increased to 28,158. The total nearly doubled in the next decade, and by 1900 it had reached the figure of 92,919. From Table 24 it is evident that commercial travelers had increased in relative importance to all

persons gainfully occupied, as well as in absolute numbers, for every period up to the year 1910. Since that time, while there has been an absolute increase in the size of the group, its relative position has remained stationary or declined slightly. These figures for commercial travelers cannot be taken as indicative of the absolute changes in employment opportunities in wholesale trade. They do, nevertheless, afford a rough index of the *relative* changes which have taken place, especially for the period before 1890.

TABLE 24. COMMERCIAL TRAVELERS IN THE UNITED STATES: 1870-1930

Year	Number	Per Cent of All Persons (10 years old and over) Gainfully Occupied
1870	7,262	0.06
1880	28,158	.16
1890	58,691	.25
1900	92,919	.32
1910	163,620	.43
1920	179,320	.43
1930	223,732	.41

(Source—U. S. Bureau of the Census, Decennial Censuses of Occupations)

Gainfully Occupied in Wholesale Trade, 1890-1930.—In 1890 for the first time, the statistics on persons gainfully occupied who were engaged in trade, were classified separately, but inadequately, into wholesale and retail trade. Data for wholesale dealers, including exporters and importers, showed that there were 31,086 persons designated as wholesale dealers in that year. By 1900 the number had increased to 42,326, together with 59,545 persons defined as packers and shippers, some, if not all, of whom were undoubtedly wholesale dealers in agricultural and other commodities. Since 1910 the basis for classification has been changed somewhat so that the data are not strictly comparable. A careful examination and reclassification of occupation statistics made by one of the authors show that there were 101,963 wholesale dealers in 1910; 121,883 in 1920; and 125,309 in 1930 (see Table 25). The figures in this tabulation are necessarily estimates and are useful chiefly as a guide

to changes in wholesale trade from decade to decade. The categories for 1910, 1920, and 1930 which are fairly comparable, and hence can be used with reasonable confidence, indicate a substantial increase between 1910 and 1920, and a leveling off since 1920. They do not cover the entire universe of wholesaling activity, however, so cannot be held to be truly representative of wholesaling trends in general. That manufacturers' wholesaling activities and those of chain systems are not included indicates that the data apply only to independent wholesaling activities. The fact that there has been a relative decrease since 1920 may thus be explained, not as a result of declining wholesaling activity, but as a relative decline in independent wholesaling operations. Furthermore, these data do not include clerical and office employees attached to wholesale trade, and there is reason to believe that there has been a continuous upward trend in such occupations. Recent data give a more complete picture and throw added light on the current employment status in wholesaling.

TABLE 25. NUMBER OF PERSONS TEN YEARS OF AGE AND OVER GAINFULLY OCCUPIED IN WHOLESALE TRADING PURSUITS: 1900-1930

Occupation	Number of Persons			
	1930	1920	1910	1900
TOTAL	540,598	539,037	436,687	....
Dealers, proprietors, and officials	170,929	206,487	171,005	....
Commercial brokers and commission men	23,638	27,552	24,009	7,334[a]
Grain elevator proprietors	9,505	8,858	5,118	....
Sales agents	5,088	41,841	35,522	....
Warehouse proprietors	7,389	6,353	4,393	....
Wholesale dealers, importers and exporters	125,309	121,883	101,963	42,326[b]
Employees	369,669	332,550	265,682	....
Commercial travelers	223,732	179,320	163,620	92,919
Foremen, warehouses, stockyards, etc.	5,599	5,833	2,778	....
Fruit and vegetable graders and packers	9,926	8,074	4,715	....
Inspectors, gaugers, and samplers	16,743	13,714	13,446	6,666[c]
Laborers, warehouses, etc.	113,669	125,609	81,123	....

[a] Commercial brokers only for 1900.
[b] Merchants and dealers only for 1900. There were in addition 59,545 persons classified as packers and shippers some of whom were wholesale dealers.
[c] Classified as weighers, gaugers, measurers in 1900.
(Source: United States Census of Population—Occupational Statistics)

Employment in Wholesaling, 1926-1929.—Additional evidence on the growth of employment in wholesaling may be gleaned from a comparison of data available for 11 cities for 1926 and 1929.[1] For these cities, population increased by 7.6% between 1926 and 1930. During the same period wholesale sales volume increased by 22.3%, and employees in wholesale trade increased by 9.7%, or from 3.7% of the total population of the eleven cities in 1926 to 3.8% in 1930. When a similar comparison is made with retail trading statistics, a slightly different picture is revealed. Retail trade for the same eleven cities increased by 10.5% between 1926 and 1929. This increase was accompanied by an increase of 16.2% in the total number of persons engaged in retailing. Thus while retail trade increased less than did wholesale trade, there was a relatively greater increase in the number of persons engaged in retailing as compared with wholesaling. This difference may be due to the fact that wholesale trade on the average probably requires more skilled or semi-skilled workers than does retailing, or it is possible that the minimum staff required in wholesaling is large enough to permit a considerable expansion in business without the necessity of adding to the personnel.

Employment in Wholesaling, 1929-1935.—The upward trend in employment reached a peak in 1929 with a total in excess of 1,600,000 employees in wholesale trade and some 90,000 proprietors and firm members in addition. This figure may be compared with the 9,800,000 employed in manufacturing and the 4,400,000 retail trade employees for the same year. Four years later at the trough of the depression, pronounced changes had come. In manufacturing industries the loss in employment was 30.5% during this period; in wholesaling there was a decrease of 23.6%, while in retailing an even smaller recession of 22.1% was experienced (see Table 26).

The inference from these data is that the distributive trades

[1] "Retail and Wholesale Trade in Eleven Cities," Chamber of Commerce of the United States and United States Bureau of the Census, 1928. The 11 cities were Atlanta, Ga.; Baltimore, Md.; Chicago, Ill.; Denver, Colo.; Fargo, N. D.; Kansas City, Mo.; Providence, R. I.; San Francisco, Calif.; Seattle, Wash.; Springfield, Ill.; Syracuse, N. Y. In making comparisons between 1926 and 1929 the data from the Census of Distribution for 1929 were reassembled to secure comparable figures for the identical areas covered in 1926 which included more than the cities proper in several localities.

are somewhat more stable sources of employment than the manufacturing industry during times of stress. It appears that retailing was able to achieve this relative stability through the process of substituting part-time for full-time workers; and, it

TABLE 26. EMPLOYMENT IN MANUFACTURES AND TRADE: 1929 AND 1933

Industry	Number of Persons Employed		Percentage Change
	1929	1933	
Manufactures[a]	9,799,966	6,815,754	−30.5
Wholesale trade[b]	1,601,189	1,222,920	−23.6
Retail trade[c]	4,402,940	3,433,652	−22.1[d]

[a] National Income, 1929-1934—Bureau of Foreign and Domestic Commerce. Ch. VIII, Table 58. Washington, D. C., U. S. Government Printing Office, 1936.
[b] Census of American Business: 1933, Wholesale Distribution, Vol. I, U. S. Bureau of the Census, p. 44, May, 1935.
[c] Census of American Business: 1933. Retail Distribution, Vol. I, U. S. Bureau of the Census, p. 57, May, 1935.
[d] There was a decrease of 29.5% in full-time employees and an increase of 28.3% in part-time employees. In other words, retailers, and possibly wholesalers also, may have reduced their staffs nearly in the same ratio as did manufacturers, but reabsorbed some of the slack by hiring part-time workers.

is possible that wholesaling used the same technique.[2] In 1935, after two years of recovery, employment in wholesale trade had increased by seven per cent over the depression low as compared with increases of fourteen and twenty-four per cent respectively for retailing and manufacturing.

Seasonal Employment Characteristics.—Another aspect of the problem of employment in wholesaling which is fully as significant as those of cyclical stability and the extent of employment in wholesale trade, is that of seasonal fluctuations which obtain within the industry. Highly seasonal employment, even when accompanied by high income, is undesirable since it imposes hardships upon those who are thrown out of work periodically. It has been held that seasonal fluctuations in employment in wholesale trade are less extreme than in retailing,[3] and there is some evidence in support of this contention.

[2] See footnote d, Table 26. Comparable data on part-time employment in wholesaling do not exist.
[3] P. H. Douglas and A. Director, "The Problem of Unemployment," pp. 80-81, New York, The Macmillan Co., 1931.

TABLE 27. SEASONAL FLUCTUATIONS IN EMPLOYMENT IN WHOLESALE AND RETAIL TRADE FOR 11 CITIES: 1926 [a]

(Per Cent of Yearly Average)

Date	Wholesale Trade	Retail Trade
Yearly average	100.0	100.0
April 1	97 8	97 1
July 1	99 4	96 1
October 1	100 3	99.0
December 1	99.4	104.6

[a] "Retail and Wholesale Trade in Eleven Cities," U. S. Chamber of Commerce and U. S. Bureau of the Census, 1928.

In the statistics of the 11-city census, referred to previously, it appears that the maximum variation for wholesale trade during the year 1926 was 2.5 points; the low point of 97.8% of the yearly average being reached in April and the high point of 100.3% in October. Retail trade showed a variation of 8.5 points, the low coming in July and the high in December (see Table 27). There is additional evidence corroborating the same point of view in the employment indexes compiled by the Bureau of Labor Statistics, which are discussed later.

An examination of the statistics for the entire United States for 1929 reveals a somewhat different situation for that year. Table 28 shows that there was slightly greater maximum variation in employment in total wholesale trade than in total retail

TABLE 28. SEASONAL FLUCTUATIONS IN EMPLOYMENT IN WHOLESALE AND RETAIL TRADE—UNITED STATES: 1929 [a]

(Per Cent of Yearly Average)

Date	Wholesale Trade	Retail Trade
Yearly average	100.0	100.0
April 15	98.6	97.0
July 15	95.2	98.0
October 15	102.8	101.0
December 15	103.3	104.0

[a] U. S. Census of Distribution, U. S. Summaries of Wholesale and Retail Trade for 1929. Computed by the authors on a comparable basis.

trade. Seasonal employment in wholesale trade in 1929 varied from 95.2% of the yearly average in July to 103.3% in December, a maximum difference of 8.1 points. For retail trade the maximum spread was 7 points, ranging from a low of 97% of the yearly average in April to a maximum of 104% in December.

A further analysis of the data by kinds of business or trade groups shows that there is great variation between different trades. The general merchandise group in retail trade which includes department stores showed an extreme variation of 27 points between July and December for 1929. The retail food group, on the other hand, showed but a three-point variation between maximum and minimum employment. A similar variation exists between wholesale trade groups, indicating that the margin of difference between wholesaling and retailing is small, though the latter showed slightly less fluctuation for the year than wholesaling. These comparisons, however, are somewhat defective as measures of seasonal trends, since only four points in the year are shown and the peaks and valleys of seasonal activity in the two fields of trade do not generally coincide.

The data for 1933 are more complete than any previously available, since monthly employment statistics were collected for each month of that year for all wholesale and retail establishments and for both full-time and part-time employment. Moreover, the Bureau of Labor Statistics has been compiling indexes of employment in wholesale and retail trade based upon sample data, which extend back to 1929.[4] These sources reveal employment conditions which corroborate to some extent the conclusion based upon the 1926 material, which indicated that seasonal fluctuations in employment in wholesale trade are less extreme than in retailing.

When all employees in 1933 are considered, neither wholesale trade nor retail trade shows any appreciable fluctuation for

[4] This sample which was quite inadequate at first has been constantly improved. A comparison of the Bureau of Labor Statistics index with an index based upon the complete census data for 1933 indicates that the wholesale trade index is based upon an excellent sample. The retail employment index is much less reliable showing a wider fluctuation than actually obtained in 1933. This is no doubt due to the fact that the sample is largely drawn from department stores and other large-scale retailers in the larger communities where there is greater-than-average use of part-time employees, (see Table 29 and Figure 32).

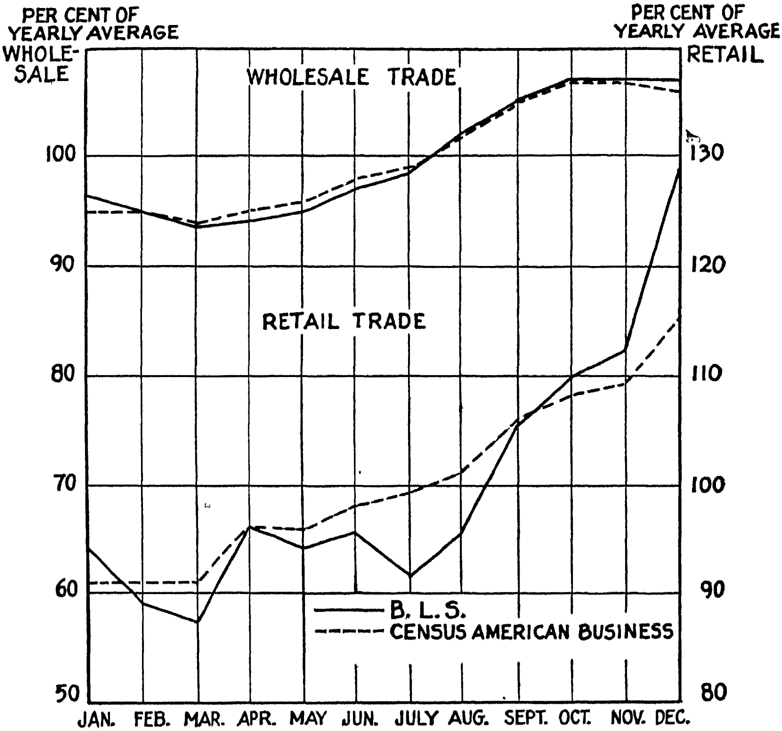

Figure 32. Monthly Fluctuations in Employment in Wholesale and Retail Trade, 1933

(Comparison of Census Bureau data with B. L. S. sample)

the *first quarter* of the year (see Figure 33). Retail employment took a spurt in April and continued an upward trend throughout the year with a sharp increase in December. The curve for wholesale trade employment also started upward in April, but not so sharply, and continued upward, closely paralleling the retail curve until November, after which it turned downward for the remainder of the year. These data, therefore, show somewhat wider fluctuations for retail trade than for wholesaling; but fluctuations which are largely confined to one month in the spring and one month at the end of the year, much of which is due to part-time employment. The data for full-time employment only show much greater employment sta-

TABLE 29. MONTHLY FLUCTUATIONS IN WHOLESALE AND RETAIL TRADE: 1933. (COMPARISON OF BUREAU OF LABOR STATISTICS SAMPLE WITH CENSUS BUREAU TOTALS AND COMPARISON OF FULL-TIME AND PART-TIME EMPLOYMENT)[a]

(Percentage of Average for the Year)

Month	Census		Census Total	B. L. S. Sample
	Full-time	Part-time		
	WHOLESALE TRADE			
Average for the year	100	100	100	100
January	95	94	95	97
February	95	93	95	95
March	95	90	94	94
April	96	92	95	94
May	97	95	96	95
June	98	96	98	97
July	99	96	99	99
August	102	99	102	102
September	105	108	105	105
October	106	111	107	107
November	106	114	107	107
December	106	112	106	107
	RETAIL TRADE			
Average for the year	100	100	100	100
January	93	84	91	94
February	92	85	91	90
March	92	87	91	87
April	95	98	96	96
May	96	96	96	94
June	98	99	98	96
July	99	98	99	91
August	102	100	101	96
September	106	106	106	105
October	108	109	108	110
November	108	112	109	112
December	112	127	115	129

[a] Census data computed by the authors from the Census of American Business, 1933, and Bureau of Labor Statistics data from publications of the Bureau of Labor Statistics.

bility for both wholesale and retail trade. The final answer to this problem must await the collection of additional data, since the year 1933 was unique in that it saw the birth of the National

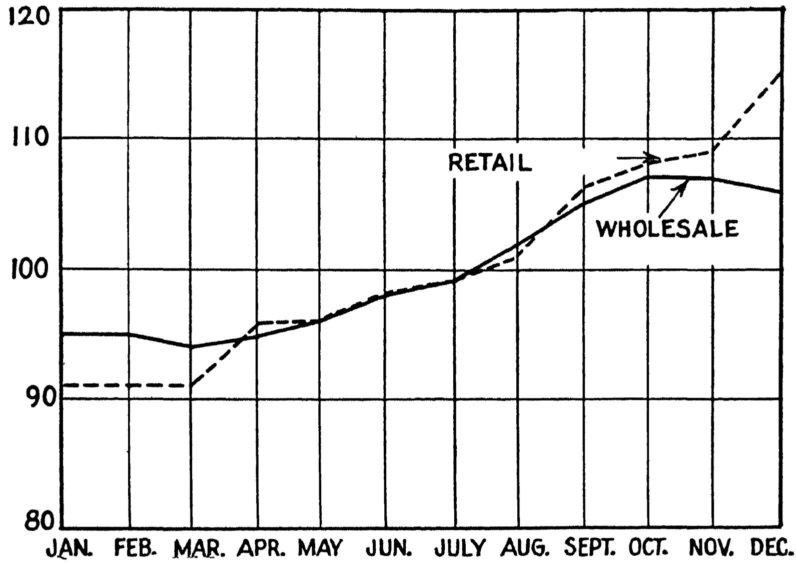

Figure 33. Monthly Fluctuations in Employment, Wholesale and Retail Trade Compared, 1933

Recovery Administration, and was, moreover, the turning point of the depression.

Part-Time Employment.—The use of part-time employees is relatively less than half as extensive in wholesaling as in retailing. In the year 1933 there were on the average but 125,943 part-time employees engaged in wholesaling activities out of a total of 1,222,911 employees. Part-time employment thus constituted but 10.3% of the total employment offered by wholesale distributors. Retail trade, on the other hand, used on the average 730,327 part-time workers out of the total of 2,703,325 in the same year, or 21.3%. Thus, relatively, retailing used slightly more than twice as many part-time workers as did wholesaling, while absolutely the ratio was nearly six to one. In turning from the year as a whole to individual months, it appears that there was little variation in the use of part-time workers in wholesale trade from month to month. The month of March showed the smallest number of part-time workers, 113,772, or about 10% of the total. Maximum use of part-time help was recorded in November with 143,471 employees,

or almost 11% of the total. These figures compare with a maximum range of retail part-time employment of from 19.7% of the total in January to 23.4% in December.

Wages and Wage Rates in Wholesaling

Comparison with Retailing.—Wholesaling has been shown in the preceding section to offer a substantial measure of relatively stable employment, with promise of expanding opportunities in the future. Stable employment is always desirable, but it may frequently be gained only at the cost of low wages. Hence, to appraise fully the significance of employment opportunities in wholesaling, it is necessary to examine wages and wage rates. An earlier chapter touched upon the matter briefly, but at this point a more exhaustive examination is appropriate. Factual material for this purpose is available from several sources.[5] The earliest body of wage data collected on an extensive scale is found in the 11-city census previously referred to in this chapter, covering the year 1926. Since this census covered both wholesale and retail trade, and since retail trade in general is more closely allied functionally to wholesaling than are other parts of our economy, a comparison of these data provides an excellent point of departure for gaining an understanding of wages and wage rates in wholesaling.

Wholesale trade in general maintained a higher level of wages in the 11 cities under discussion during the year 1926 than did retailing. The *average* for the entire group was $1,980 per year, the range being from $1,249 to $2,854. *Minimum* wholesale wages, with the exception of a few isolated trades, chiefly in the junk trade and in the women's clothing business, did not fall below $1,000 and were as high as $1,530 in Fargo, North Dakota. This was in sharp contrast with retail trade where the highest minimum was $904 in Seattle. Maximum wages bring out the same point, namely, that average wholesale wages were higher than those paid in retailing. For wholesaling, maximum wages ranged from $2,161 to $4,541 as compared with a retail variation of $1,848 to $2,940.

[5] The Census Bureau has published material for the years 1926, 1929, and 1933. Other major sources are the publications of Bureau of Labor Statistics, and the records of the National Recovery Administration. A few private studies on certain aspects of the wage problem in wholesaling are also available.

For the more recent year, 1929, data are available on wages in retail and wholesale trade for the entire United States by kinds of business, and for different sections of the country (see Table 30). The average retail employee received $1,312 in 1929 or $25.00 per week. For the country as a whole, this

TABLE 30. AVERAGE SALARIES AND WAGES OF TOTAL WHOLESALE AND FULL-TIME RETAIL EMPLOYEES, BY GEOGRAPHIC SECTIONS—UNITED STATES: 1929 AND 1933 [a]

Geographic Section	Wholesale Trade			Retail Trade—1929	
	Computed Average Annual Salary–1929	Computed Weekly Salary		Computed Average Annual Salary	Computed Weekly Salary
		1929	1933		
United States	$1,875	$36.00	$29.00	$1,312	$25.00
New England	1,860	36 00	31.00	1,313	25.00
Middle Atlantic	2,243	43.00	33.00	1,420	27.00
East North Central	1,946	37.00	29 00	1,377	26.00
West North Central	1,685	32.00	26.00	1,193	23 00
South Atlantic	1,427	27.00	25 00	1,144	22 00
East South Central	1,479	28.00	23.00	1,073	21 00
West South Central	1,620	31.00	25.00	1,140	22.00
Mountain	1,605	31.00	27.00	1,301	25.00
Pacific	1,756	34.00	28.00	1,425	27.00

[a] Computations based on Census of Distribution and Census of American Business.

average was slightly below that for the 11 cities in 1926, a fact which is not surprising since city wages might be expected to be higher than those of small communities and hence higher than the average for the entire country. The highest rates were found in the Middle Atlantic States and the Pacific States with weekly wages of $27. The lowest rates obtained in the East South Central region where, on the average, a wage of only $21 per week was paid. Undoubtedly, the lower wages prevailing in the South are partly due to such factors as local conditions of climate, standards of living, and racial groups, but there is also a wide diffusion in the wage rates attributable to the various kinds of business which must likewise be taken into account. Table 31, which illustrates this point, shows that the highest wages were paid in the jewelry stores, followed quite closely by those of the lumber and build-

ing materials trade. In each of these groups it is necessary to employ skilled mechanics, a fact which may explain the higher average wages. The restaurant group showed the lowest wages, the annual average falling below $1,000. It should be pointed out, moreover, that these wages would be still lower if only waiters and waitresses were included, but cooks and other kitchen employees constitute a part of the total.

These retail figures are of interest as a basis for comparison with those of wholesaling. In wholesale trade the level of wages was considerably higher than in retail business as is revealed by accompanying data. The average for the United States in 1929 was $1,875 per employee, while the range was from $1,427 in the East South Central States to $2,243 in the Middle Atlantic States. The sectional variation corresponded

TABLE 31. AVERAGE SALARIES AND WAGES OF FULL-TIME RETAIL EMPLOYEES IN SELECTED TRADES IN THE UNITED STATES: 1929 [a]

Trade	Computed Average Salary Per Year	Computed Weekly Salary
ALL TRADES	$1,312	$25.00
Food stores	1,284	25.00
General stores	1,025	20.00
General merchandise stores	1,126	22.00
Automotive stores	1,461	28.00
Apparel stores	1,480	28.00
Furniture and household stores	1,593	31.00
Restaurants and eating places	909	17.00
Lumber and building stores	1,630	31.00
Other retail stores	1,408	27.00
Hardware	1,473	28.00
Drug	1,234	24.00
Jewelry	1,749	34.00

[a] Computations based on Census of Distribution, Retail Summary for the United States for 1929.

measurably with that found in retail trade. That is, in most sections which showed higher or lower than average retail wages, the wholesale wages also varied in the same direction. This correspondence between the two sets of figures lends strength to the conclusion that sectional peculiarities contribute

to wage differentials. There are many factors, however, which make caution necessary in interpreting these statistics.

One point which should be kept in mind is that these *average* wages include wages of executives, salesmen, and all other employees, largely office and warehouse workers.[6] The rates of pay of these three groups are far from uniform. Executives' salaries averaged $5,859 for all wholesale trade in the United States, salesmen received an average of $2,656, while all other employees received but $1,420 each on the average. The distribution of these three groups varies from section to section of the country and from trade to trade.

The same factor noted above as explaining differences in retail wage rates tends to influence the average rate of wholesale wages paid in different localities, namely the geographic distribution of the kinds of business throughout the country. In certain lines of wholesale trade, such as the marketing of radio sets, most of the business is transacted from a relatively few large cities. In contrast with such concentration, the wholesale grocery business is widely dispersed. In so far as wages vary from trade to trade, sectional differences would be accentuated by such geographical specialization. The averages for each of the major groups of wholesale business are shown in Table 32. Average wages as low as $1,168 were paid in the farm products trade, and the iron and steel scrap trade paid but $1,366 on the average. Apart from these two groups the lowest average wage was $1,505 in the farm supplies trade. At the other extreme was an average wage of $2,579 in the metals and minerals trade, and $2,259 in the dry goods and apparel groups.

Incidence of the Depression on Wages and Wage Rates.—The foregoing analysis presents conditions as they prevailed in a normal post-war year (1926) and in the last year before the depression (1929). Very little change appeared between the two years in so far as the data tell the true story. Wholesale wages remained relatively high during this era, which, coupled with fairly stable employment, made wholesaling an attractive

[6] For wholesale but not retail trade, salaries and wages for executives, salesmen, and other employees are given separately in the 1929 census reports.

TABLE 32. AVERAGE SALARIES AND WAGES IN WHOLESALE TRADE BY KIND OF BUSINESS—UNITED STATES: 1929[a]

Kind of Business	Computed Average Annual Salary	Computed Weekly Salary
ALL TRADES	$1,875	$36.00
Amusement and sporting goods	1,983	38.00
Automotive	2,065	40.00
Chemicals, drugs, etc.	2,141	41.00
Dry goods and apparel	2,259	43.00
Electrical	1,996	38.00
Farm products (n.e.s.)	1,168	22.00
Farm supplies (except machinery)	1,632	31.00
Food products (n.e.s.)	1,505	29.00
Forest products (except lumber)	1,646	32.00
Furniture and house furnishings	2,064	40.00
General merchandise	1,602	31.00
Groceries and food specialties	1,767	34.00
Hardware	1,874	36.00
Iron and steel scrap, etc.	1,366	26.00
Jewelry and optical goods	2,196	42.00
Leather and leather goods	2,195	42.00
Lumber and building materials	2,070	40.00
Machinery, etc.	2,204	42.00
Metals and minerals	2,579	50.00
Paper and paper products	2,151	41.00
Petroleum and petroleum products	2,019	39.00
Plumbing and heating equipment	2,108	41.00
Tobacco and tobacco products	1,978	38.00
All other	1,957	38.00

[a] Computations based on Census of Distribution, Wholesale, Summary for the United States for 1929.

field of endeavor for white-collar workers and for certain classes of manual, skilled, and semi-skilled labor. What effect did the depression have upon this condition? The normal explanation, according to accepted business-cycle analysis, is that wages decline as a result of a reduced demand for the services of wholesalers and the pressure of a growing volume of unemployment. The reduced demand for his services impels the wholesaler to reduce his prices; as a result his profits may decline and he may be forced to lower his wage rates. The competition of unemployed workers for jobs would contribute to the same end by making it easier for the wholesaler to cut wages. What actually happened is of particular interest be-

cause of its contribution to business-cycle analysis, and because of the information it provides to those studying the earning possibilities of employment in wholesaling over a period of years.

It has been noted elsewhere that there was a decline in the total volume of wholesale trade of 53.4% between 1929 and 1933. Employment also declined but only by 23.6%, or less than half the decline in sales. The total expenditures of wholesale establishments for salaries and wages dropped 42.9% from the 1929 level, considerably more than the decrease in employment, but less than the decline in sales volume. The corresponding figure for retailing was nearly 44%, or slightly more than the loss sustained by wholesaling employees. These data indicate that wholesale distributors actually reacted to trying business conditions in the manner outlined in the last paragraph. They did not, however, reduce wages in the same proportion that their volume of business declined. Average wages or computed wage rates, moreover, dropped even less than did total payrolls. The average annual salary for all employees, including executives of incorporated companies, was $1,875 in 1929, which was equivalent to $36 per week. The corresponding figures for 1933 are $1,402 per annum and $27 per week, or a decline of approximately 25% from the average rates for 1929. Again, it might be noted, that average annual wages for all retail employees fell even further or from $1,179 to $848, a decline of some 28%. Average weekly wages in retailing dropped from $23 in 1929 to $16 in 1933. By 1935 recovery had raised average wages in retailing to $915 per year, or to over $17 per week, while in wholesaling the corresponding figures were $1608 per year and $31 per week.

Total payrolls, according to the Bureau of Labor Statistics, stood at 56.8% of the 1929 level in 1933, having reached a low point of 52.4% in April of that year. An uninterrupted increase is indicated by the index for the two years following, reaching an average of 65.3% for the year 1935.

The data on average weekly and hourly earnings and average hours per week should also prove of interest to students of wholesaling and to those who may contemplate a career in that

field. Table 33 covers the years 1932 through 1935. Average weekly earnings in 1932, a depression year, ranged from nearly \$29 in January to slightly less than \$27 during the latter part of the year. Since there was relatively little change in the length of the average working week, 47 to 48 hours, the decline was probably due to the drop in average hourly earnings from a high of 59¢ in March to a low 55¢ in November. The year 1933 saw a further decline in weekly earnings although the average for the year was close to \$26.[7] The inception of the National Recovery Administration in 1933, undoubtedly tended to reduce hours of work and to increase hourly rates, an influence, however, which can with difficulty, if at all, be segregated from the effect of the general revival of business which started the same year. Whatever the cause, the average hourly earnings increased from a low of 53¢ in June to 61¢ in December, 1933, while the average work week declined from 47 hours in January to 42 hours in November and December of the same year. There was very little change registered during 1934, weekly earnings remaining at \$26, hours worked averaging about 41. Hourly earnings showed a tendency to increase slightly and reached a peak of 64.9¢ in July, after which they receded to 63.4¢ in December. Recovery, proceeding apace in 1935, advanced weekly earnings to an average close to \$27 for the year. The work week increased slightly from 40.4 hours in January to 42.4 in December. Hourly earnings for 1935 fluctuated from 64.3¢ in January to 66.2¢ in May, after which they declined to 64.4¢ in December.

Trade and Regional Variation During 1933.—The reduction in wages and salaries in wholesaling trades between 1929 and 1933 was distributed over the entire field.[8] For 1933 the

[7] This figure which is from the Bureau of Labor Statistics, is based upon a sample of the field and compares with the Census figure of \$27 for 1933, representing complete coverage. The 1933 rate, however, includes wages of executives, which undoubtedly accounts for its being higher. In 1929, executives were shown separately by the Census Bureau. In that year they accounted for 4.1% of all employees in wholesale trade and received 12.4% of the total payroll. U. S. Summary of Wholesale Distribution, Fifteenth Census, p. 67.

[8] It is impossible to make a full comparison between these two years because the available data from the Census Bureau are not strictly comparable for analysis by trade groups and by geographic areas. The 1933 data do not show total employees, but give statistics for full-time employees only. The 1929 figures are for total employees, and show neither full-time employees nor full-time payrolls separately. The 1933 data, however, are a very satisfactory basis for comparing trade and regional differences for that year, and are used in this section.

TABLE 33. MONTHLY DATA ON WAGES AND WAGE RATES IN WHOLESALE TRADE: 1932-1935

Month	Per Capita Weekly Earnings				Average Hours Worked per Week				Average Hourly Earnings			
	1932	1933	1934	1935	1932	1933	1934	1935	1932	1933	1934	1935
January	$28.95	$27.15	$26.05	$26 11	47.8	47.0	41.5	40 4	58.8¢	56.7¢	61.9¢	64.3¢
February	28.56	25.97	26.13	26.33	48.3	46.5	42.0	40.7	57.7	54 4	61.5	64.6
March	28.79	26.32	26.14	26.59	47.5	46.8	42.3	41.0	59 0	54.3	60.7	64.3
April	28.14	25.69	26.66	26.97	47.4	46.6	42.5	41.1	57.7	54.6	62 3	65.6
May	28.85	26.22	26.50	26.98	48.0	47.4	42 2	40.9	57.8	54.1	61.8	66 2
June	27.69	25.60	26.38	27.19	47.1	47.1	41.2	41.0	56.4	53 2	63 8	66 0
July	27.20	26.12	26.90	27.31	46.7	46.6	41.2	41.3	55 6	54.8	64.9	65.7
August	27.01	25.89	26.47	26.92	46.5	44.3	40.7	41.5	55.4	56.7	64.3	64.5
September	26.88	25.69	26.34	27.66	46.6	42.1	40 6	42.0	55.4	59.3	63 8	64.7
October	26.87	26.81	26.49	27.07	47.1	43.4	40.9	41.9	55 8	59.9	64.1	64.0
November	26.80	25.81	26.05	26.65	47.0	42.3	40.7	41.7	55.1	59.8	63.6	63.3
December	26.86	26.06	26.12	27.41	46.8	41.9	41.0	42.4	56.1	61.1	63.4	64.4

(Source: United States Bureau of Labor Statistics.)

highest average full-time yearly earnings were found in the metal and the chemical trades with annual rates in excess of $1,900 and weekly averages of $37. These data are to be compared with an average *full-time* wage for all trades of $1,508

TABLE 34. AVERAGE SALARIES AND WAGES IN WHOLESALE TRADE BY KIND OF BUSINESS—UNITED STATES: 1933 [a]

Kind of Business	Full-time Employees (Average for year)	Payroll (Full-time only) (in thousands of dollars)	Computed Average Salary[b]	
			Annual	Weekly
All Trades	1,096,977	$1,654,238	$1,508.00	$29.00
Amusement and sporting goods	14,443	23,827	1,650.00	32.00
Automotive products	54,106	81,062	1,498.00	29.00
Chemicals	22,613	43,694	1,932.00	37.00
Clothing and furnishings	30,298	50,957	1,682.00	32.00
Coal	12,316	22,997	1,867.00	36.00
Drugs and drug sundries	25,158	38,963	1,549.00	30.00
Dry goods	47,394	86,541	1,826.00	35.00
Electrical goods	37,341	61,042	1,635.00	31.00
Farm products—raw materials	45,501	75,660	1,663.00	32.00
Farm products—consumer goods	134,056	165,246	1,233.00	24.00
Farm supplies	17,060	20,845	1,222.00	24.00
Furniture and house furnishings	18,660	28,510	1,528.00	29.00
General merchandise	6,284	8,477	1,349.00	26.00
Groceries and food	221,609	319,092	1,440.00	28.00
Hardware	30,110	41,560	1,380.00	27.00
Jewelry	11,145	16,693	1,498.00	29.00
Lumber and building materials	28,738	43,770	1,523.00	29.00
Machinery	84,159	135,687	1,612.00	31.00
Metals	19,682	38,230	1,942.00	37.00
Paper and products	29,322	49,372	1,684.00	32.00
Petroleum and products	108,979	171,183	1,571.00	30.00
Plumbing and heating	18,617	28,913	1,553.00	30.00
Tobacco and products	15,533	24,931	1,605.00	31.00
Waste materials	12,683	11,876	936.00	18.00
All other products	51,170	76,110	1,487.00	29.00

[a] Wholesale Distribution, Vol. I, Summary for the United States, Census of American Business, 1933—U. S. Department of Commerce, May, 1935.

[b] Computed by simple division of full-time payroll totals by average number of full-time employees. Weekly salary computed on assumption of full 52 weeks of work without allowance for vacation or sick-leave on pay.

for the year, a figure which was at the rate of $29 per week (see Table 34). The geographic variation in average wholesale salaries ranged from $33 per week, or $1,739 per year, in the Middle Atlantic States, to $23 per week, or $1,214 per year in the East South Central territory. New England was second only to the Middle Atlantic group, with an average

weekly salary of $31 and was followed in order by the East North Central and the Pacific Coast States. The South Atlantic and West South Central States, with average wages of $25, joined with the East South Central States to present a solid southern front with distinctly lower wage levels than prevailed in other parts of the country.

Conclusion.—One of the basic measures of the importance of any industry is the employment opportunities which it offers. Wholesaling not only provides a substantial volume of employment but appears to be one of the few industries which is expanding, as indicated by the upward long-range trend based on available data. The degree of stability of employment is an important consideration to individuals in the industry and to society as a whole. Stability may be measured seasonally and cyclically. Wholesale trade appears to be more attractive than either manufacturing or retailing in that it is relatively more stable cyclically than is manufacturing, and appears to be slightly more stable seasonally than is retail trade.

Stable employment is always desirable, but it may frequently be gained only at the cost of low wages. Hence, to appraise fully the significance of employment opportunities in wholesaling, it is necessary to examine wages and wage rates. On this basis wholesaling appears to be considerably superior to retailing and, since average wages in retailing are about the same as those prevailing in manufacturing, wholesaling offers decidedly better opportunities to those of both fields. Wholesaling, moreover, maintains its relative advantage in wages and wage rates over retailing throughout the business cycle.

CHAPTER 24

COSTS AND PROFITS IN WHOLESALING

Operating Costs in Wholesale Distribution

Operating Costs Defined.—Wholesaling costs have been mentioned casually at a number of points in earlier chapters. In this chapter a more searching economic analysis of these costs is presented. The economic concept of cost is a broad one and is subject to various definitions. In its fundamental sense it is equivalent to the value of the sum total of economic resources utilized in producing a commodity or in performing a service. More narrowly it may be reduced in the final analysis to the human labor expended in production or still further to the psychological and physiological factors of disutility. The concept of disutility, parenthetically, is the antithesis of the concept of utility and is held by some economists to be the ultimate determinant behind the supply schedule for producible goods just as utility lies behind the demand schedule in the final analysis of demand (see Chapter 5). The concept of cost, however, which forms the basis of the analysis of wholesale distribution in this chapter is that of money outlay or operating expenses. This concept of cost is essentially a counting-house or bookkeeping concept, for it comprises all money expenditures incurred in operating a business unit or necessary to the maintenance of a going business concern. While it is, in a sense, a superficial concept of cost, it is an eminently practical and useful one for both business men and economists. For the former it provides an essential record of business activities and is a valuable aid to management. For economists it provides a concept of cost which is susceptible to quantitative measurement. The accounting records of business costs form the raw materials from which the economist derives an appraisal of the efficiency of our economic system. He utilizes the data on business oper-

ating expenses as a basis for analyzing some of the most fundamental and intricate aspects of our economy.

Distribution Costs of Manufactures.—A complete analysis of the costs of wholesale distribution would include the operating costs of all agencies which engage in wholesale marketing functions. In its broadest sense, wholesaling includes most of the marketing activities of manufacturers, farmers, miners, fishers, and other primary producers as well as the operations of wholesale middlemen, and some of the activities of many large-scale retailing agencies. This is a field which is much easier to define than to measure quantitatively, especially where operating cost data are sought. For example, little or no information is available for either the extent to which primary producers, other than manufacturers, engage in wholesale distribution, or the costs incurred by them. While some excellent data are available which show the extent to which manufacturers engage in wholesale marketing activities, very few facts have yet been assembled which show the cost of performing these activities.

However, two noteworthy studies have been published on the marketing costs of manufacturers. The first of these was an analysis of marketing expenses of a group of grocery manufacturers which was made by the Bureau of Business Research of Harvard University.[1] This study, which covered the years 1927 and 1928, analyzed 72 firms the first year and 110 the second, and was a pioneer venture in this field. The second study was an analysis of the distribution costs of 312 manufacturers, conducted by the Association of National Advertisers in 1933 in cooperation with the National Association of Cost Accountants. While covering a larger number of industries and plants than the first, it still presented a rather small sample of the manufacturing industries of the United States.

The results of these studies of manufacturers' marketing costs are of great interest to students of wholesaling, because they measure the cost of performing the first step in the wholesaling process. They reveal a wide variation not only between

[1] Bulletin No. 69, Bureau of Business Research, Harvard University, Vol. XVI, No. 1, Jan., 1928.

industries but between companies in the same industry group. The Harvard study, for example, shows a range for total marketing expenses of manufacturers of coffee, tea, extracts and spices varying from a low figure of 5.61% of net sales in 1928 to a high of 39.13%, with 18.37% as the median. Wide variation appears in the other industries included in Table 35.

TABLE 35. MARKETING EXPENSES OF GROCERY MANUFACTURERS: 1927 AND 1928

(Net Sales = 100%)

Products	Number of Firms		Total Marketing Expenses—Per Cent of Net Sales			
	1927	1928	1927	1928		
			Median	High	Low	Median
Coffee, Tea, Extracts and Spices	17	32	19.08	39.13	5.61	18.37
Canned and Bottled Foods	8	19	16.24	28.58	5.49	10.84–11.37
Soaps and Cleansers	10	10	33.77	56 26	16.79	34.24–41.75
Meat	9	8	7.90	15.52	1.98	5.80
Pickles and Preserves	6	8	27.45	20.63	10.30	16.56–20.43
Flour	7	7	5.10	19.50	2.48	6.49– 7.24
Macaroni	4	6	16.13–35.06	29.89	11.23	16.22
Cereals	3	4	.. ..	27.34	24.82	25.16

(Source: Bureau of Business Research, Harvard University, Bulletin No. 79, Tables 5, 7-13, Feb., 1930.)

The A. N. A. study covers nineteen consumers' and ten producers' goods industries. Actual distribution costs are shown for the year 1931 while for the year 1932 budgeted costs are used. The study indicates that cost ratios vary greatly between industries due in part to the small sample in some industries. Manufacturers of radio equipment and supplies had lowest average distribution costs in 1931 with 16.54% of net sales. Producers of drugs and toilet articles had highest average costs with 38.8%, although averages for paint and varnish manufacturers were very little lower. Manufacturers of producers' goods reported consistently lower distribution costs than did those in the consumers' goods groups. Textile producers, for example, had average distribution costs as low as 9.15% of sales while the maximum average for the group was 25.83%

of net sales for manufacturers of machinery and machine tools (see Table 36). A logical explanation of these differences would seem to lie in industrial differentiation, in the degree to which advertising is used, in the relative use of direct selling in contrast with the use of agents, brokers, or wholesalers, and in other variations in distribution practices.

TABLE 36. TOTAL COSTS OF DISTRIBUTION—312 MANUFACTURERS: 1931 AND 1932

(Percentages of Net Sales)

Consumers' Goods			Producers' Goods		
Industry	1931 Actual	1932 Budget	Industry	1931 Actual	1932 Budget
Agricultural equipment and supplies	18.39	21.38	Building materials and supplies	23.68	25.25
Automotive	24.68	27.76	Chemicals and allied products	19.87	22.16
Clothing	22.63	18.05	Electrical equipment and supplies	19.77	19.54
Confections and bottled beverages	31.55	29.43	Iron and steel and their products	18.95	20.00
Drugs and toilet articles	38.80	37.62	Machinery and machine tools	25.83	22.41
Furniture	33.08	29.82	Non-ferrous metals	18.48	17.31
Grocery products	27.11	25.38	Paper and paper products	20.41	22.28
Hardware	18.94	14.72	Stone, clay and glass products	21.74	20.04
Heating equipment	32.93	29.55	Transportation equipment	15.50	13.96
Home furnishings	21.69	17.95	Textiles	9.15	10.84
Household appliances	26.45	23.25			
Jewelry and silverware	28.66	28.88			
Office equipment and supplies	32.15	30.29			
Paints and varnishes	38.61	36.00			
Petroleum products	31.04	29.54			
Radio equipment and supplies	16.54	16.28			
Shoes	21.19	20.89			
Sporting goods	18.21	15.66			
Tobacco products	18.27	18.19			

(Source: An Analysis of the Distribution Costs of 312 Manufacturers, Association of National Advertisers in cooperation with the National Association of Cost Accountants, New York, 1933.)

Manufacturers' Wholesale Branches.—Considerable information is available on manufacturers' costs of distribution through integrated wholesale branches, set up primarily to facilitate direct selling to retailers and to industrial users. A total of 174 district and general sales offices and 16,515 sales branches were maintained by manufacturers in 1929. Total operating expenses for *district and general sales offices* averaged

7.8% of net sales for all trades and were as low as .9 of 1% in the iron and steel trade. Such operating expense ratios for a few typical industries were: automotive trade, 6.7%; chemicals, 12.5%; drugs and drug sundries, 29.5%; dry goods and apparel, 18.5%; electrical, 15.7%; groceries, 11.8%; hardware, 1.9%; machinery, 17.3%; metals and minerals, 1.3%; petroleum and petroleum products, 5.4%; plumbing and heating trade, 39.3%.[2]

Wholesale sales branches are sometimes operated in conjunction with district and general sales offices; by other manufacturers they are maintained as separate and independent channels for the sales of their output. These branches are of two types: offices which do not handle the actual merchandise but rather rely upon deliveries from the plant or from local public warehouses, and branch houses which perform the storage function and make deliveries from their own warehouses. These two types were combined in the data for 1929 which reveal an overall average for total operating expenses of 9.4%, a figure slightly higher than the average for district and general sales offices. Here, again, there is wide variation in costs between trades, of which the following are indicative: automotive trade, 11.8%; dry goods and apparel, 9.9%; electrical trade, 7.5%; furniture and house furnishings, 16.1%; groceries, 13.8%; hardware, 14%; petroleum and petroleum products, 20.5%.[3]

The data for 1933 and 1935 segregate manufacturers' sales branches which carry stocks from those without stocks. Sales branches with stocks in 1933 had higher operating costs than those without in 5 out of 33 trades. In 1935, operating costs were higher in 13 out of 16 trade groups for manufacturers' branches which carried stocks. For both types, however, costs were lower in 1935 than in 1933 in most trades.

There is evidence that distribution through the use of integrated wholesale sales branches may be justified if a sufficiently large volume of sales can be made. According to the best evidence available, costs of operating such branches vary inversely

[2] Fifteenth Census of the United States, 1930: Distribution, Vol. II, Wholesale Distribution, Washington, D. C., Government Printing Office, 1933, pp. 82-91.
[3] *Ibid.*

with the volume of business. Table 37 indicates for selected trades the range of costs incurred by manufacturers' wholesale branches operating with varying sales volumes. In every trade but the one for radio sets, parts and accessories, costs are lowest for the large-volume establishments. In the radio trade costs are lowest for branches with sales between $300,000 and $500,000 and increase thereafter as sales increase.

TABLE 37. OPERATING EXPENSES OF MANUFACTURERS' WHOLESALE BRANCHES FOR SELECTED INDUSTRIES BY SIZE OF ESTABLISHMENT: 1929

(Percentages of Net Sales)

Size of Establishment (Net Sales Groups)	Electrical		Grocer-ies	Hard-ware	Paints and Var-nishes	Radio Sets, Parts, etc.
	General Line	Special-ty				
Under $ 50,000......	32.8	41.1	20.9	27.9	33.2	29.7
$ 50,000 to 100,000......	29.5	21.2	20.0	18.0	26.1	
100,000 to 200,000......	18.8	16.7	26.2	18.5	24.9	16.4
200,000 to 300,000......	40.7	17.2	25.0	16.0	26.6	
300,000 to 400,000......	30.9	15.8	24.9	16.3	31.4	10.5
400,000 to 500,000......	16.9	12.3	22.3	17.8	20.7	
500,000 to 1,000,000......	8.0	13.3	21.0	12.1	24.9	12.9
1,000,000 to 2,000,000......	5.9	9.9	17.9	12.9	23.8	15.7
2,000,000 to 4,000,000......	8.0	9.6	16.1	6.9	15.9	
4,000,000 to 8,000,000......	4.4	6.1	10.9	9.2	12.2	
8,000,000 to 15,000,000......	4.0	5.5	3.6			
15,000,000 to 25,000,000......	2.7	3.7	2.5			
25,000,000 and over............		3.6	2.0			

(Source: Census of Wholesale Distribution, Trade Series, Fifteenth Census of the United States, 1933.)

Finally, it is important to note the effect of four years of declining business activity upon the operating costs of manufacturers' wholesale branches. In eight out of thirteen comparable industries, costs in terms of percentages of net sales increased sharply between the years 1929 and 1933. This was no doubt largely due to the severe drop in sales volume and the unwillingness or inability of manufacturers' sales branches to reduce costs in the same proportion. Among the trades in which costs went down between the two years, the reductions were small, excepting only in the petroleum products trade where costs were reduced by nearly 50%.

Distribution Costs of Wholesale Merchants

Cyclical and Trade Variation.—Cost data for the wholesale merchant or service wholesaler, when subjected to interpretative analysis, reveal many significant facts about the wholesaling structure.[4] For instance, a comparison of expense ratios

TABLE 38. OPERATING EXPENSES OF WHOLESALE MERCHANTS IN SELECTED TRADES: 1929 AND 1933

(Percentages of Net Sales)

Trade	1929[a]	1933[b]
Automotive products	15.0	23.1
Clothings and furnishings (general line)	14.1	14.2
Drugs and drug sundries (general line)	14.1	15.1
Dry goods (general line)	14 8	16.0
Electrical goods	16.9	22.3
Furniture and house furnishings	18.9	22.6
General merchandise	16.1	17.5
Groceries (general line)	9.1	9.3
Hardware (general line)	18.6	21.3
Hardware (specialty line)	21.5	22.6
Jewelry and optical goods	18.5	24.3
Lumber and building materials	17.2	25.4
Machinery, equipment and supplies (except electrical)	19.3	25.4
Paper and paper products	16.6	21.5
Petroleum and its products	15.5	17.6
Plumbing and heating equipment and supplies	20.0	25.2
Tobacco and its products (except leaf)	7.5	6.4

[a] Fifteenth Census of the United States, 1930, Wholesale Distribution, Summary for the United States, No. W-151, Washington, D. C., Government Printing Office, 1933, pp. 86-87.

[b] Census of American Business, 1933, Wholesale Distribution, Vol. I, Summary for the United States, United States Department of Commerce, May, 1935, pp. A-5—A-7.

for 1929 with those for 1933 discloses the fact that wholesale merchants fared better during the depression years than did manufacturers' sales branches. While costs rose for both groups, the rates of increase were not so great on the average for wholesalers as were those for manufacturers' sales branches (see Tables 17 and 38). Between 1933 and 1935 the operating costs of wholesalers fell substantially in most lines, making a better recovery than manufacturers' sales branches. This

[4] Comprehensive data on total operating expenses for all wholesale merchants in the United States have been compiled for the years 1929, 1933, and 1935 by the Census Bureau and some of the results are shown in Appendix E.

greater flexibility in management and this better adaptation to the performance of wholesaling functions might be expected from the analysis of the two types of distributors contained in Part II. Manufacturers' sales branches have been seen to suffer from the fact that they normally carry a very limited line of merchandise which must bear the full burden of fixed charges and operating expense. These expenses do not respond readily to reduction. A further explanation may lie in the fact that the statistics for manufacturers' sales branches, since they are all inclusive, are heavily weighted by the preponderance of branches in the capital goods field. Since both industrial goods and durable consumers' goods suffered much more than did other lines during the depression, the results for the whole group may have been distorted by the poor showing of this large bloc of sales branches.

Regional Variation.—Not only were there differences between trades and from one year to another in operating costs of wholesale merchants, but there was also variation between different sections of the country. Such variation, however, was

TABLE 39. OPERATING EXPENSES OF WHOLESALE MERCHANTS IN SELECTED TRADES—BY GEOGRAPHIC AREAS: 1929

(Percentages of Net Sales)

GEOGRAPHIC AREA	TRADE GROUPS			
	Electrical 1929	Groceries and Food Specialties 1929	Hardware 1929	Paints and Varnishes 1929
United States	16.1	9.1	18.5	21.8
New England	16.2	11.7	21.9	22.9
Middle Atlantic	16.9	9.6	20.8	18.2
East North Central	14.5	11.0	18.1	21.4
West North Central	16.2	9.9	20.0	26.0
South Atlantic	17.2	7.6	18.1	21.9
East South Central	14.5	7.8	16.1	30.4
West South Central	14.4	8.1	15.8	26.9
Mountain	16.7	8.7	17.3	24.6
Pacific	16.7	7.4	18.0	23.7

(Source: Special Trade Studies by the authors.)

less extreme in most trades than was that caused by trade and cyclical influences. Typical variation of average costs is indicated by the spread in the grocery trade which was from 7.4% of net sales in the Pacific States to 11.7% in the New England States, and in the paint and varnish business where wholesalers' costs varied from 18.2% of net sales in the Middle Atlantic States to 30.4% in the East South Central section of the country (see Table 39).

Size of Business and Operating Expenses.—Variation by sales volume, which may result from intensive cultivation of a small territory or from expanding operations over a wide area,

TABLE 40. TOTAL EXPENSES AS PER CENT OF NET SALES FOR WHOLESALE MERCHANTS IN SELECTED TRADES, BY SIZE OF BUSINESS—UNITED STATES: 1929

SIZE GROUPS (Net sales in thousands of dollars)	KIND OF BUSINESS (TRADE) Drug (General line)	Dry goods (Specialty)	Electrical goods	Groceries	Hardware (General line)	Hardware (Specialty)	Paints and Varnishes	Radio sets
Total	13.3	10.3	16.1	9.8	18.5	19.5	21.8	15.9
Under 50	17.8	13.5	21.6	13.8	24.3	27.3	28.2	26.7
50 to 100	14.8	12.8	20.1	8.9	21.5	21.9	24.0	21.1
100 to 200	16.1	10.0	18.9	9.0	20.4	22.9	22.5	20.3
200 to 300	13.7	10.3	17.9	9.6	19.0	20.2	23.8	20.7
300 to 400	12.9	9.4	17.9	8.9	20.1	19.7	22.9	16.3
400 to 500	14.2	*9.0*	17.0	*8.7*	20.4	19.4	20.5	18.4
500 to 1,000	13.6	9.7	16.7	9.5	18.7	21.6	22.0	16.2
1,000 to 2,000	13.3	10.0	15.2	9.7	18.1	18.1	12.3	*14.1*
2,000 to 4,000	13.1	9.8	14.5	9.6	17.9	13.6	*18.0*	....
4,000 to 8,000	*12.8*	11.6	*12.5*	11.8	17.3	*12.3*	....	....
8,000 to 15,000	13.4	12.0	....	14.8	*16.7*	....	....	....
15,000 to 25,000	....	....	....	....	20.8	....	....	....

(Source: N. H. Engle, *The American Economic Review*, Vol. XXIII, No. 1, Supplement, p. 101, Mar., 1933.)

is another contributing cause of cost differentials in wholesale merchants' operations. Comprehensive data for eight groups of wholesalers contribute to a better understanding of wholesaling economics. A tendency for operating costs to decrease as the size of the business increases, is apparent; that is, least cost, the point from which cost ratios increase, is reached after sales volume becomes rather large for most of these lines of

trade. In other words, there is indication that in some of these businesses there may be an optimum size beyond which it is unprofitable to expand. Only in dry goods and groceries is the point of *least cost* reached quite early, with a sales volume of $400,000 to $500,000. A similar indication that there is a point for each business beyond which its costs increase, appears in the data on general line drug wholesalers and general line hardware wholesalers, although the least cost is not reached until average sales volume is much greater in these trades (see Table 40). These data indicate that the wholesaler should watch his volume figures closely after they reach the minimum cost point. Unless he is able to increase his gross margin and hence maintain his net profits, it is clearly unwise to expand beyond this point, which, for practical purposes, is equivalent to maximum operating efficiency.

Causes of Cost Variation.—The foregoing analysis of cost differentials among wholesaling agencies raises a number of questions which the student must answer in order to understand their importance to the wholesaling process. What is the reason for cost differences between the various types of wholesaling establishments in the same trade? What causes the frequently wide variation in costs between different trades for the same type of wholesaling agency? What is the explanation of cost variation among the members of a single type of wholesaling concern within the same trade? These and many other questions which will occur to the student may be answered only by a careful analysis of the trade and functional differences which have been discussed in earlier chapters, particularly in Part II. Some additional aid may be derived from the following examination of detailed cost items.

Detailed Cost Studies.—Operating costs of wholesale merchants discussed above have been restricted to total costs. More detailed breakdowns of the operating expenses of small sample groups of wholesalers in selected trades are available from studies conducted by such agencies as the Bureaus of Business Research of Harvard and Ohio State Universities, and other similar bureaus, as well as by certain trade associations. The

United States Bureau of Foreign and Domestic Commerce has also conducted original work in the field of distribution cost accounting. These studies provide functional allocations of expenses which are of value to the business man in controlling his business operations. For example, some of the earliest Harvard studies reveal that selling expense is the largest subdivision of cost in a number of trades, constituting nearly 38% of total expenses for automotive wholesalers, 36% for dry goods wholesalers in the South, 25% for drug wholesalers, and 26% for grocery wholesalers. Since operating costs vary from year to year, a desirable measure lies in comparing the results of *identical* concerns. A study of 17 wholesale grocers in Ohio covering the decade 1924-1934 affords an excellent illustration of this method. Total expenses before interest showed a tendency to increase steadily from 8.95% of net sales in 1924 to 12.55% in 1932. This increase of 3.6 points was accounted for largely by increased selling expenses of .54 points; increased receiving and shipping expenses, .79 points; increased executive, administrative and buying expenses, .92 points; and increased losses from bad debts, .84 points; the remainder being divided between rent, heat, taxes, and other miscellaneous items. It should be pointed out, however, that increases in these ratios of expenses to sales were due in no small part to the decline in sales from $15,739,094 in 1924 to $8,715,739 in 1932. The two following years, 1933 and 1934 enjoyed successive recovery in sales and declines in total expenses (see Appendix B).

A similar study of the wholesale hardware trade, although not for identical firms, reveals yearly developments between 1919 and 1929. This study, which was made by the National Wholesale Hardware Association, shows an upward trend in total operating expenses from 16.59% of net sales in 1919 to 20.47% in 1921, an increase of nearly 4 points (see Appendix C). Thereafter, the range of fluctuation remained very narrow, the decade ending in 1929 with costs of 19.96%, still some 3 points above the 1919 level. It will be recalled that the census data for 1933 showed a continuation of this upward trend, the total for all hardware wholesalers being 21.3% for that year.

It is probable that the increases in costs registered for the years 1921 and 1933 were both caused by the depression stages of the business cycle which reduced the dollar volume of sales more rapidly than costs could be curtailed. Since 1933, decided improvement has been in evidence, the data for 1935 showing an average of less than 19% (18.19), and a report to the authors from Mr. George A. Fernley, Secretary of the National Wholesale Hardware Association, indicating that many hardware wholesalers had their costs below 18% by the second quarter of 1936.

Distribution Costs of Special Types of Wholesaling Agencies

Operating Expenses of Agents and Brokers.—The degree of specialization which characterizes the various types of wholesale middlemen is usually reflected in their respective operating costs. As has been pointed out before, one of the most numerous of these types of wholesaling intermediaries is the group known collectively as agents and brokers. Their concentration on very few functions makes their operating costs normally much lower than those of the regular wholesaler. This group is rather broad, however, and significant differences are found when the leading types are segregated. Indeed a cost analysis brings out quite clearly distinctions between certain types in this group which otherwise seem to be quite similar, if not identical. Table 41 contains comparisons between brokers, commission merchants, manufacturers' agents, and selling agents in a variety of trades for the year 1933. That brokers appear to have lower operating rates than do the other related types is due to a greater degree of concentration upon the selling function to the exclusion of other activities. Commission merchants, as indicated in Chapter 14, frequently also engage in merchant operations and perform warehousing and other related functions not normally assumed by agents or brokers, a circumstance which helps to account for their higher ratios. Customary practices in the various trades undoubtedly are responsible for some of the differentials in operating costs which these data reveal.

TABLE 41. OPERATING EXPENSES OF AGENTS AND BROKERS, BY TYPES, FOR SELECTED TRADES: 1933
(Total Expenses as Percentages of Net Sales)

Brokers		Commission Merchants		Manufacturers' Agents		Selling Agents	
Trade	Expenses	Trade	Expenses	Trade	Expenses	Trade	Expenses
Farm products—raw	1.6	Clothing and furnishing	4.2	Amusements and sporting goods	8.9	Clothing and furnishing	3.7
Farm products for consumers	2.8	Dry goods	3.6	Automotive products	7.1	Coal	4.0
Farm supplies	2.2	Farm products—raw	2.1	Chemicals	6.6	Dry goods	2.9
General merchandise	1.1	Farm products for consumers	...	Clothing and furnishings	4.3	Groceries and foods	5.5
Groceries and foods	1.4	Farm supplies	7.0	Drugs and drug sundries	8.4	Lumber and building materials	13.5
Lumber and building materials	6.2	Groceries and foods	4.0	Dry goods	3.8	Metals	4.0
Machinery	8.2	Lumber and building materials	6.8	Electrical goods	10.0		
Petroleum and its products	2.2	Petroleum and its products	10.3	Furniture and house furnishings	7.5		
				Groceries and food	4.4		
				Hardware	6.3		
				Jewelry and optical goods	9.1		
				Lumber and building materials	8.3		
				Machinery	15.0		
				Metals	6.7		
				Paper and paper products	5.5		
				Plumbing and heating	10.9		

(Source: Census of American Business: 1933, Wholesale Distribution, Vol. I, Summary for the United States. U. S. Department of Commerce, May, 1935, pp. A-18—A-25.)

Operating Expenses of Chain Store Warehouses.—One of the most significant types of wholesaling agencies is the chain store warehouse which, because of the strategic position it occupies in the competitive struggle for the wholesaling business, has given the regular wholesaler great concern. Chain store warehouses are found in relatively few lines of business. They have exercised a particularly strong influence in the food and grocery trade where they accounted for 288 out of the total of 462 chain warehouses in existence in 1933. Total operating expenses amounted to 4.3% of net sales for grocery chain warehouses in 1933, an increase from 3.3% in 1929. This increase was due to the tightening of the competitive struggle, the expansion of lines, such as the addition of meats, and to other factors such as the decline in sales volume. In the drug trade, chain store warehouses reversed the process, and costs declined from 4.1% of net sales in 1929 to 3% in 1933. The explanation may lie in the fact that drug chain warehouses dropped from 41 in 1929 to 19 in 1933 whereas sales dropped but 27%. These figures indicate an elimination of less efficient units. Clothing and furnishing chains showed a much greater improvement, with costs dropping from 8.8% of sales in 1929 to 3.8% in 1933. Here, too, there was a drastic decline in the number of warehouses as well as in sales volume.[5] Partly through curtailment of functions, and partly through more effective control over the functions actually performed, the chain store warehouse has been able to reduce operating costs much below those of typical wholesale merchants. In the few lines in which they have become entrenched they have thus injected a new element of cost reduction into the distribution picture which has had its telling effect upon other types of wholesale organizations.

It is noteworthy, however, that chain store warehouses show the same lack of uniformity in operating expense ratios as do other types of wholesaling agencies. Thus, in 1929 there were ten chain store warehouses out of a total of 234 in the grocery trade with total operating expenses of 40.2% of net sales. The explanation appears to lie in their small sales volume, which

[5] Census of American Business: 1933, Wholesale Distribution, Vol. I, Summary for the United States, U. S. Department of Commerce, May, 1935, p. A-17.

averaged less than $50,000 annually. At the other extreme there were 14 grocery chain warehouses with average sales in excess of $25,000,000 per year, the operating ratios of which were 2.4% of net sales. The group of 234 warehouses averaged 3.5% of net sales. This figure is low, however, as a measure of the functions actually performed, since the average grocery chain store warehouse *handles* but 69.5% of the merchandise *billed* through the warehouse. When allowance is made for this fact, the cost of performing the wholesaling function becomes 4.6% rather than 3.5%.[6]

A further qualification is essential since chain store warehouses are not independent wholesaling agencies as are wholesale merchants, but rather are integral parts of a combined wholesaling-retailing mechanism for distribution. Thus to obtain a legitimate comparison it is desirable to reduce costs to percentages of the consumer's dollar and to combine the wholesaling and retailing costs of the different groups under consideration. Since the chain system, the independent wholesaler-retailer distribution and the manufacturers' wholesale branch-independent retailer comprise the dominant competitive groups, apart from the cooperative chain in the grocery trade, the following comparison is significant. Chain systems operated in 1929 on a 17.3% margin as contrasted with 24.7% for the independent wholesaler-retailer method, and 28.5% for the manufacturers' wholesale branch-retailer channel.[7] When allowance is made for the differences in functions performed, it would seem that some of the chain's apparent advantage would be reduced. Nevertheless, the chain system would still retain its position as the most economical of the three methods of distribution.

Expenses of Other Types of Wholesale Organizations.— Another type of distributor, the cash-and-carry wholesaler, has also managed to keep wholesaling costs down through curtailing the functions performed. Found chiefly in the food, grocery,

[6] N. H. Engle, "Groceries and Food Specialties," pp. 82-84, Distribution No. W-205, Fifteenth Census of the United States, Washington, D. C., U. S. Government Printing Office, 1933.

[7] N. H. Engle, "The Marketing Structure in the Grocery Industry," *Harvard Business Review*, Apr., 1934, pp. 337-338.

and tobacco trades, this type of organization had in 1929 average costs of 8.6%, 5.3%, and 3.4% of net sales, respectively. These figures may be contrasted with 10.5%, 9.3%, and 7.5% for wholesale merchants in the same trades and for the same year.[8] Among other types of distributors may be mentioned bulk tank stations in the petroleum trade with operating costs of 16% of net sales in 1929 and 19.7% in 1933, assemblers of farm products with average costs of 4.5% of sales in 1929 and 10.8% in 1933, and wagon distributors whose operating costs were 18.8% of net sales in 1929.

Profits in Wholesale Distribution

Closely akin to operating costs in wholesale distribution is the problem of net profits. Indeed it is common business parlance to speak of gross margins, which include operating costs, as gross profits. Profit is an illusive concept for business men and economists alike; hence a word of clarification is needed. From the business man's standpoint, profits, or the hope of them, represent his reason for being in business. He looks upon them as the measure of his success as a business man. He finds them, if there are any, in the difference between his business income and his outgo, or between his receipts and his merchandise costs plus the costs of doing business. The economist, with a scientific approach, delves a little deeper into the subject of profits than does the business man. In the end, however, both come out at about the same place. Profits, in a dynamic economy, are essentially the price which society places upon the services of business men as entrepreneurs. They tend to measure at once society's demand for such services and the business man's appraisal of his own worth. The fact that there may be losses (negative profits) does not alter this definition. As one of our able economists puts it,

> The central figure in modern industry as it exists today is the business man,—the entrepreneur, as he is called in the formal literature of economics. He stands at the center of the industrial process controlling and directing it. If industry is prosperous, it is because the business man

[8] Fifteenth Census of the United States: 1930, Wholesale Distribution, Summary for the United States, No. W-151, Washington, D. C., Government Printing Office, 1933, pp. 86-89.

is prosperous; if labor is fully employed and production is large, it is because individual entrepreneurs are hiring labor and using it in conjunction with plant to bring forth products. When the entrepreneur sees no prospect of profits, production lags, unemployment develops, and the current of industrial life stagnates. . . .

It is a peculiar function of entrepreneurs to plan and direct the productive activities of the people. They purchase labor, material, land, and plant; they decide what shall be produced, and combine the factors of production for the purpose of bringing forth the product. They select managers; they find the capital funds needed for the enterprise. Finally, they market the product and out of the proceeds they pay wages, taxes, rents, material costs, and interest on borrowed capital. Of the remainder an amount is usually set aside to cover contingencies, and depreciation sufficient to keep the capital intact. What is left constitutes business profits. These profits comprise the fund available for distribution as dividends or for the accumulation of a surplus which may be used to extend plant, to increase current assets, or to pay debts.[9]

Although the definition of profits and the explanation of their importance may be difficult it is a relatively simple problem compared to that of subjecting them to quantitative analysis. Professor Wesley Claire Mitchell, Director of Research for the National Bureau of Economic Research, aptly points out that,

Business profits are one of the hardest kinds of income to measure. Any business enterprise should be able to state accurately the sums that it has paid out in the course of a year as wages, interest and rents; it should be able to state also what income it has paid out to its owners. But the profits of the enterprise itself are not definite sums fixed by past transactions. On the contrary, they are appraisals of net changes in the position and prospects of the business as a whole—appraisals that look forward to the uncertain future as well as back to the irrevocable past. Like all mixtures of past history and future anticipations, statements of profits are necessarily subject to variable margins of uncertainty.[10]

Despite these difficulties some data have been collected on profits in wholesale distribution. These may be found largely in the reports of individual corporations, in a few restricted studies, and in the statistics of income compiled by the Bureau of Internal Revenue, or in secondary sources based upon these three.

[9] David Friday, "Profits, Wages, and Prices," pp. 11, 12. New York, Harcourt, Brace & Co., 1920.

[10] Foreword to Ralph C. Epstein, "Industrial Profits in the United States," p. 4, New York, National Bureau of Economic Research, 1934.

A recent study of profits, which contains some very excellent data on certain wholesale trading corporations, is one of corporate profits as revealed by audit reports which Professor W. A. Paton of the University of Michigan made for the National Bureau of Economic Research and the American Institute of Accountants. Table 42 reveals the profit-sales and profit-capitalization relationships of a small sample of wholesale trading companies in six selected trades for the years 1927 through 1929. The completeness of the basic reports, together with the great care with which they were audited, make these data extremely valuable despite the very small sample included in the study. These figures, for example, reveal the yield of 2.66% of sales for cotton and wool merchants in 1927, which was equivalent to 6.69% on total capital. For the same trade in 1928 and 1929, losses were incurred rather than profits earned. The dry goods trade profits amounted to 3.23% of net sales or slightly over 6% on invested capital in 1927. The relative profitableness of a few other selected groups of wholesale trading corporations is also revealed by this study, showing the variation in yield on sales and capital during the three years 1927, 1928, and 1929.

Perhaps the largest body of data on corporate profits is that compiled and issued by the Bureau of Internal Revenue of the Treasury Department, and based upon reports filed for income tax purposes. These data, while quite valuable as aids to a better understanding of profits in wholesaling, contain a number of limitations. In the first place, they were not collected primarily for statistical purposes. Furthermore, since they are confined to corporations, the data are not representative of the thousands of unincorporated companies engaged in wholesaling.[11] Even more serious from the point of view of wholesaling in the broadest sense, is the fact that these data are confined to those wholesaling corporations whose principal business is wholesaling. Thus manufacturers' wholesale sales branches are not shown separately but are classified under manufacturers. Simi-

[11] In 1929, according to the Census of Distribution, there were 89,266 establishments owned by corporations out of a total of 169,702 wholesale establishments. Sales of corporations, however, accounted for 74.2% of total wholesale sales. Fifteenth Census of the United States, 1930, Wholesale Distribution, Summary for the United States, No. W-151, p. 96, Washington, D. C., U. S. Government Printing Office, 1933.

TABLE 42. EARNINGS ON SALES AND TOTAL CAPITAL, FROM AUDIT REPORTS OF SELECTED WHOLESALE TRADING CORPORATIONS: 1927-1929

Trade Group	1927	1928	1929
COTTON AND WOOL MERCHANTS			
Number of companies	6	7	7
Total capital (thousands of dollars)	16,629	14,640	10,216
Sales volume (thousands of dollars)	41,882	43,172	40,970
Earnings (profits)[a] (thousands of dollars)	1,113	−176	−945
Earnings as percentage of total capital	6.69	....	....
Earnings as percentage of total sales	2.66	....	....
DRY GOODS			
Number of companies	10	10	10
Total capital (thousands of dollars)	60,465	58,811	56,879
Sales volume (thousands of dollars)	112,868	110,196	....
Earnings (profits) (thousands of dollars)	3,642	3,727	3,143
Earnings as percentage of total capital	6.02	6.34	5.52
Earnings as percentage of total sales	3.23	3.38	....
FUEL, LUMBER AND BUILDING MATERIALS			
Number of companies	16	17	17
Total capital (thousands of dollars)	20,371	22,589	22,782
Sales volume (thousands of dollars)	17,410	19,244	19,499
Earnings (profits) (thousands of dollars)	292	450	398
Earnings as percentage of total capital	1.43	1.99	1.75
Earnings as percentage of total sales	1.68	2.34	2.04
FARM PRODUCTS (fruit, vegetables, dairy products and grain)			
Number of companies	12	12	12
Total capital (thousands of dollars)	25,813	28,868	39,641
Sales volume (thousands of dollars)	269,827	204,963	312,591
Earnings (profits) (thousands of dollars)	−5,186	592	−4,365
Earnings as percentage of total capital	....	2.05	....
Earnings as percentage of total sales	....	0.29	....
GROCERIES			
Number of companies	11	11	11
Total capital (thousands of dollars)	6,419	6,238	6,581
Sales volume (thousands of dollars)	14,669	15,067	15,626
Earnings (profits) (thousands of dollars)	454	205	486
Earnings as percentage of total capital	7.07	3.29	7.38
Earnings as percentage of total sales	3.09	1.36	3.11
PAPER AND LEATHER PRODUCTS			
Number of companies	8	8	8
Total capital (thousands of dollars)	9,586	10,096	9,313
Sales volume (thousands of dollars)	17,723	18,080	17,134
Earnings (profits) (thousands of dollars)	566	531	406
Earnings as percentage of total capital	5.90	5.26	4.36
Earnings as percentage of total sales	3.19	2.94	2.37

[a] Net balance available for dividends after operating expenses and interest.

(Source: From W A. Paton, "Corporate Profits as Shown by Audit Reports," pp. 142-147. New York, National Bureau of Economic Research, 1935.)

larly, chain store warehouses are combined with retailing, and bulk tank stations with petroleum refining, a phase of manufacturing. Nevertheless, for that part of wholesaling which is designated as *wholesaling proper,* the statistics of income are enlightening.

A special analysis of these data was made by Professor Ralph C. Epstein of the University of Buffalo.[12] From this study certain tabulations were made of the profits of large and small wholesaling corporations. Appendix D provides a comparison of the return on sales for 292 large wholesale trading corporations, subdivided into eight trade groups, with that for 283 large-scale retail trading corporations, covering the decade 1919-1928. Identical companies were used throughout the period for both wholesale and retail trades. The average return on sales for all of the wholesale trading corporations was 3.5% over the decade and ranged from a high of 5.7% in 1919 to a low of .9% in the depression year of 1921. Retail corporations, in contrast, received 5.8% on sales over the decade with a maximum of 8.7% in 1919 and a minimum of 3.5% in 1921. In the wholesaling group the hardware trade yielded the highest average return on sales over the ten-year period with 4.5%. Hardware wholesalers, however, shared with paper wholesalers the unfortunate position of being the only trades to show actual losses in any year, the year 1921 showing negative profits for both groups.

Although profits are normally measured as percentages of sales, it is also desirable to know their relationship to capital investment. Returns on invested capital are shown for the identical corporations in the same table. Since trading corporations normally turn their capital several times per year, the yield on investment is higher by the number of times capital is turned when profits are computed on the basis of investment than when sales are used. For example, net profits may amount to $50,000 on a sales volume of $1,000,000, giving a profit ratio of 5%. If the invested capital is $500,000, the return is 10%

[12] "Source-Book for the Study of Industrial Profits," Bureau of Foreign and Domestic Commerce, U. S. Department of Commerce, 1932, and "Industrial Profits in the United States" based upon the Source-Book and published by the National Bureau of Economic Research, 1934.

TABLE 43. RATIOS OF INCOME TO SALES AND RETURN ON INVESTMENT, FOR NON-IDENTICAL SMALL WHOLESALE TRADING CORPORATIONS: 1924-1928

Wholesale Trade	1924	1925	1926	1927	1928	Average Capital Dec. 31, 1928
DRUGS						
Number of corporations	43	29	42	49	43	$316,000
Percentage, income of sales	2 5	3 3	2.9	3.3	2.9	
Percentage, income of capitalization	7.8	10.4	10.6	12.6	8.9	
DRY GOODS						
Number of corporations	39	45	47	49	47	241,000
Percentage, income of sales	2.8	2.7	2.0	3 3	2.2	
Percentage, income of capitalization	10.1	11.4	7.6	8.7	6.8	
FURNITURE						
Number of corporations	26	46	48	47	46	185,000
Percentage, income of sales	3.7	3.4	3.9	2.4	4.1	
Percentage, income of capitalization	9.8	11.6	14.7	7.9	11.8	
GROCERIES						
Number of corporations	84	78	85	97	91	157,000
Percentage, income of sales	1.9	1.9	1.3	1.7	1.5	
Percentage, income of capitalization	9.9	10.3	9.0	8.8	11.0	
HARDWARE						
Number of corporations	49	49	48	48	48	229,000
Percentage, income of sales	3.3	3.0	2.9	3.0	4.0	
Percentage, income of capitalization	8.9	8.3	7.8	8.1	9.6	
JEWELRY						
Number of corporations	46	48	48	50	46	152,000
Percentage, income of sales	4.2	4.2	4.4	3.7	3.2	
Percentage, income of capitalization	10.7	9.6	12.5	9.6	9.1	

(Source: Ralph C. Epstein, "Industrial Profits in the United States," pp. 448, 449, New York, National Bureau of Economic Research, 1934.)

on the investment, which is equivalent to saying that the company has a capital turnover of two times per year. All wholesale trading corporations included in Professor Epstein's sample had an average yield of 10.7% on their investment over the ten-year period as compared with a return of 3.5% of sales figures, indicating an average annual turnover of slightly more than three times.

Fewer data are available for the smaller-scale wholesaling corporations and it was impossible to secure identical companies for the period under discussion. Nevertheless, data were selected for six wholesale trade groups covering the years 1924-1928 from which certain comparisons may be made. These

data are summarized in Table 43. They afford an interesting basis for comparison with the profits of large-scale corporations. For example, reasonably comparable data are available for 25 large-scale drug wholesalers in 1924 with average capital of $1,250,000 and for 43 small-scale merchants in the same trade with average capital of $316,000. The larger corporations earned 4.2% of sales or 11.8% on investment, whereas the smaller concerns had net incomes of 2.5% of sales or 7.8% on invested capital. In dry goods, the small-scale wholesalers earned 2.8% on sales or 10.1% on investment in 1924 while the larger corporations earned 3.0%, or slightly more on sales, but only 7.4% on investment. This trade, however, showed the

Table 44. Rate of Return on Invested Capital, Wholesaling Corporations Compared with Retailing, Manufacturing, Mining and Finance Corporations: 1919-1928

(Income as Percentage of Capitalization, Before Taxes)

Year	Wholesale Trade	Retail Trade	Manufacturing	Mining	Finance
1919	23.0	25.5	18.3	4.5	15.0
1920	13.8	9.5	12.3	6.0	12.6
1921	2.4	8.3	2.9	0.9	7.8
1922	11.2	16.7	10.2	2.9	12.2
1923	13.7	16.2	11.2	5.1	9.8
1924	10.0	15.1	10.0	3.7	10.2
1925	9.6	16.1	12.1	5.4	10.8
1926	9.5	15.3	12.4	6.4	10.4
1927	8.6	15.2	9.5	5.1	10.2
1928	8.7	13.7	11.0	7.9	10.4

(Source: Ralph C. Epstein, "Industrial Profits in the United States," pp. 56 and 310, New York, National Bureau of Economic Research, 1934.)

larger-scale wholesalers earning 3.6% of sales and 8.4% of capital in 1928 while the small-scale corporations earned 2.2% and 6.8% respectively on sales and invested capital.

Relative Earning Power of Wholesaling.—A final aspect of wholesaling profits is the relative earning power which wholesaling enjoys when compared with other segments of the national economic structure. Table 44 shows the ratios of net income (before taxes) to capitalization of wholesaling corpora-

tions in comparison with retailing, manufacturing, mining, and financial organizations for the decade 1919-1928. At the beginning of this decade wholesaling ranked second only to retailing with a yield of 23% on capitalization, while manufacturing corporations earned 18.3%, finance corporations 15%, and mining corporations 4.5% on their invested capitals. The following year, 1920, saw wholesaling in first place, not because wholesaling profits had increased but because they had declined less sharply than in the other industries. In the depression year of 1921 wholesaling dropped to fourth place, ahead of mining only, and despite a recovery to second place in 1923 dropped back to fourth place in 1925 and remained there for the four last years under discussion with average earnings of approximately 9%. These facts seem to indicate that the post-war era has created conditions whereby it became increasingly difficult for wholesalers to maintain their profit position relative to other industries.

The implications of the facts on cost and profits in wholesaling which have been analyzed in this chapter are discussed in the following chapter which considers certain aspects of the economic efficiency of the wholesaling mechanism.

CHAPTER 25

ECONOMIC EFFICIENCY OF WHOLESALING INSTITUTIONS

Economic efficiency as applied to marketing is a problem worthy of careful examination, if for no other reason than because it has been generally assumed *a priori* that all middlemen, and wholesalers particularly, are parasites on the body economic. In preceding chapters this criticism has been analyzed, and it has been shown that wholesale middlemen, in general, perform essential economic functions. This chapter is designed to carry the analysis a step further and examine the degree to which these functions are efficiently performed by wholesale middlemen.

Nature and Types of Economic Specialization.—Efficiency may be defined as the quality of accomplishing the greatest amount of work in the best possible manner with the least possible expenditure of time and resources. Efficiency in performing economic functions depends upon a number of factors, but the cornerstone is specialization, sometimes called division of labor. This point was recognized by Adam Smith and other early investigators of economic phenomena as was noted in Chapter 5. There are many varieties of specialization, but the most commonly recognized type is that within a particular business unit, or *intra-plant specialization.* This type of specialization consists in subdividing the tasks to be performed into significant and logical parts, and concentrating upon the problems of doing each well. To be successful in its objective of increasing economic efficiency, it is essential that the specialization of efforts be properly coordinated. Modern methods of production in the automobile industry afford an excellent illustration of this point. Specialization of function has led to such a subdivision of the work that men are employed who spend their

entire time upon such simple work as giving a turn or two to a nut which bolts the engine to the frame. Such specialization would of course be impossible without careful planning of the flow of work through each process.

A second type of specialization may be described as *inter-plant specialization.* Examples of this may be found in the automobile industry, again, where entire plants specialize in the production of bodies or fenders or some other automobile part. Both intra-plant and inter-plant specialization may be grouped under the broader category of *intra-industrial specialization* since they are examples of specialization within a particular industry. *Inter-industrial specialization* makes a still broader application of the idea, and indicates a significant way of looking at different industries as specialized parts of our economy. It is this type of specialization which is thought of when economic activity is classified into agriculture, manufacturing, mining, fishing, and similar broad groupings. There is also the concept of *geographical specialization* which may be applied to various parts of a country, to separate countries, or to various parts of the world. Thus there is common reference to the South as a cotton-growing section, to the North as an industrial area, to Cuba as a cane-sugar country, to Brazil as a coffee country.

Fully as important to economic efficiency is that type of specialization which results from a *subdivision of the entire economic process* into the broad categories of production, distribution, exchange, and consumption, and the further division of these areas into functionally differentiated activities. For example, the broad field of marketing is divided into wholesaling and retailing, and into still smaller areas within these fields. These classifications are economically defensible provided that the areas are sufficiently differentiated from each other to permit economies from specialization. Wholesaling would appear, in theory at least, to be in such a position. Before reaching a conclusion, however, it must be seen whether or not some degree of integration of the wholesaling function with production, retailing, and consumption would be better, or whether the *specialized* wholesaling function cannot be so coordinated with

these other parts of our economy that a larger flow of income results for the whole.

Specialization vs. Integration.—There have grown up in recent years many practices in the field of marketing which run counter to the principle of specialization. The wholesaling specialist who has staked his claim midway between producer and retailer, or between producer and industrial user, has seen his functions encroached upon from both sides. Producers, ignoring the advantages which a specialized wholesaling agency might be expected to have, or else feeling that other considerations outweighed possible savings from such specialization, have set up their own wholesaling divisions. On the other hand, retailers have also sought to combine wholesaling activities with their own functions. Nearly all the great retail chain systems have established wholesaling divisions, or made some provision for performing the wholesaling functions without recourse to the specialized wholesale middlemen. Department stores and mail-order houses have likewise assumed many of the functions of wholesaling. Groups of independent retailers have banded themselves together and attempted jointly to perform wholesaling functions.[1] The larger industrial users have followed a similar course in the purchase of materials and supplies. In view of these encroachments on specialized wholesaling it is necessary to look more deeply into the problem of wholesaling efficiency. Instead of resting the case upon the unsupported theoretical superiority of specialization, a practical examination of the facts about relative marketing efficiency is advisable: first, from the standpoint of the wholesaling mechanism as a whole in comparison with retailing, manufacturing, and agriculture; and, secondly, from the angle of competing types of wholesale establishments within the wholesaling structure.

Relative Efficiency of the Wholesaling Mechanism in Terms of Margins.—Wholesaling margins, or the spread between cost and selling price of the merchandise handled, present one clue to this problem. When this spread is compared with similar margins for other specialized economic groups, such as

[1] See Chapter 28 for a discussion of cooperative chains.

retailers and manufacturers, a somewhat sounder conception of the relative efficiency of wholesaling establishments should result. The weakness of this approach to the problem is that there are great differences existing between the economic functions performed by the groups under comparison. As noted in the chapter, Economic Functions of Wholesaling, manufacturers specialize largely in creating form utilities, whereas wholesaling institutions create time, place, and ownership utilities. Furthermore, wholesaling and retailing, though more nearly alike, have important functional differences which invalidate any close comparison. It is felt, nevertheless, that there is some merit in this method and the available data are therefore presented with appropriate reservations.

The figure which approximates most closely the spread or margin between cost and sales values in manufacturing is called the *value added* by the manufacturing process. This is the gross difference between the cost of materials used in the manufacturing processes and the f.o.b. selling price of the finished product. In 1929 this figure amounted, in round numbers, to 45% of the total value of all manufacturing. In the same year the retail spread for all lines of retail trade made up 26% of total retail sales. This figure is the difference between the cost of goods sold by retailers and the selling price, less net profits, and includes an estimated salary for the proprietors of unincorporated retail stores, salaries and wages paid to retail employees, rent or its equivalent, and all other costs of doing business. Since this figure does not include net profits, other sources of the size of this item must be sought. Special studies of the net profit margin in retailing, by such agencies as the Harvard Bureau of Business Research, indicate that an additional 2% or 3% of net sales must be added to cover this item. Thus a figure of 28% or 29% would approximate roughly what may be termed the "value added" by the retailing process. The analogous estimate for wholesaling is 11% or 12% of net sales by wholesale establishments, a figure which includes the wholesaling cost reported to the Census of 9%, plus an estimated 2% or 3% to cover net profits.[2]

[2] Fifteenth Decennial Census, Censuses of Manufactures and Distribution.

In the field of agricultural production, data on *value added* by the farming process are not available from the Census Bureau. However, some significant facts may be cited as evidence that there is a rather large spread in this industry. The Yearbook of Agriculture of 1933 gives the gross income from total agricultural production of crops and livestock as $11,950 million for the year 1929. A figure for *operator's expenditures* is also given which includes items very closely allied to the expenditures which the Census Bureau lists under *total expenses* of wholesalers and retailers, and of *value added* by manufacturers. Operator's expenditures for 1929 were $6,621 million, exclusive of interest on the operator's capital, wages for his own labor, and reward for management. The items included amounted to approximately 55% of the gross income derived from operations. If allowance could be made for the omitted items, to make the figure comparable with the *value added* figures from the Census, this ratio would be considerably higher.

From these data it appears that the farmer expends more than 55% of his gross income for performing his functions, while the manufacturer, retailer, and wholesaler utilize 45%, 29%, and 12% of their gross incomes, respectively, in the performance of their functions. When these figures are converted to a roughly comparable basis by reducing them to percentages of the consumer's dollar, the farmer requires 34¢, the manufacturer, 28¢, the retailer, 29¢, and the wholesaler, 8½¢.[8]

The above analysis reveals the fact that wholesaling is conducted on a much narrower margin than any of the other important branches of economic specialization. In so far as the functions performed by specialized wholesale agencies are as important as those performed by the other three categories discussed, the implication is that the relative efficiency in the whole-

[8] These computations assume that all manufactured goods and all farm products flow through wholesalers and retailers and that transportation costs are small. Thus the retailer whose costs are 29% of sales requires 29¢ of the consumer's dollar. Deducting 29¢ from $1.00 gives 71¢ which is assumed to be the wholesaler's selling price. 12% (the wholesaler's costs) of 71¢ takes 8½¢, the share of the consumer's dollar which the wholesaler takes and also the wholesaler's margin in terms of percentage of the consumer's dollar. Deducting this from 71¢ gives 62½¢, the cost to the wholesaler of the goods he sells. Allowing ½¢ for transportation, leaves 62¢ as the manufacturer's selling price, of which 45% is 28¢ or 28% of the consumer's dollar. Assuming the same conditions for farm products, the farmer requires 55% of 62¢ or 34¢.

saling field is high.[4] Further examination of this thesis can be made by using the data on wage payments in the respective industrial segments, since such material is on a more nearly comparable basis.

Relative Efficiency of Wholesaling in Terms of Wages.— An explanation of wages which enjoys rather wide acceptance among modern economists is one known as the marginal productivity theory of wages.[5] Briefly, this theory suggests that there is a tendency in a competitive society for wages to approximate the value of the addition made to the total product of enterprise by the marginal laborer. Such theory grows out of the assumption that the employer is willing to add to his staff of laborers until the additional income produced by the last laborer added is at least as great as the cost of hiring the additional laborer. Because of the law of diminishing marginal productivity, it will be profitable to carry production or to extend business operations to such a point, assuming always a demand for the product, since a profit will be derived from all laborers previously hired. Competition on the part of laborers for available jobs, on the other hand, is relied upon to keep the rate of wages for all laborers in the same labor market at a point no higher than that determined by the marginal laborer. While there are many qualifications of this theory in actual practice, it may be accepted as a reasonable, although abstract, exposition of an intricate subject. It undoubtedly stresses certain real forces which are at work in the determination of wage rates.

In accepting this theory as adequate for the purpose at hand, a comparison of wages paid in wholesaling with those in manufacturing, and especially with those in retailing, where the functional cleavage is less extreme, ought to throw some light on the problem of relative economic efficiency for these groups. In the year 1929 the average annual earnings of wage-earners in manufacturing amounted to $1,315 (see Table 45). If salaried officers and employees are included, the average amounted to

[4] It has been established in preceding chapters that wholesaling forms an important part of American economic life as a source of employment and income for a substantial number of people, and as an invaluable service agency in distributing goods. Its *relative* importance to other industries is stressed in this chapter.

[5] Paul Douglas' "Theory of Wages" contains one of the more recent examinations of this theory. New York, The Macmillan Co., 1934.

$1,492. For the same year the average annual earnings of full-time employees in retail trade, as has been shown in Chapter 23, were $1,312, or practically the same as for wage-earners in the manufacturing industries. Wholesaling, as also indicated in that chapter, made a much better showing from the workers' point of view with average annual earnings of $1,875. These data are from the compilations of the Census Bureau, and have been placed on as nearly a comparable basis as possible. Admittedly, they do not tell the whole story about earnings and

TABLE 45. AVERAGE WAGES IN MANUFACTURING, WHOLESALING, AND RETAILING—UNITED STATES: 1929 AND 1933

Industry	Average Wages	
	1929	1933
Manufacturing		
Average Wages	$1,315	$ 869
Average Salaries and Wages	1,492	965
Wholesaling		
Average Salaries and Wages	1,875	1,508
Retailing		
Average annual earnings per full-time employee	1,312	986

(Source—Data for 1929 based on Fifteenth Decennial Census—Census of Manufactures, and Census of Distribution. Data for 1933 derived from Biennial Census of Manufactures and Census of American Business.)

wage rates in the respective segments of our economy. They are sufficient, however, to indicate a very significant fact about wholesaling. According to the wage theory above discussed, the average earnings in wholesaling would tend to measure the value which society places upon the services rendered by wholesalers under conditions of free competition. While it is clearly recognized by the authors that there are actually many obstacles to the free interplay of competitive forces in American economic life, it is, nevertheless, true that monopoly conditions are equally far from prevailing. A considerable degree of competition actually exists in most sectors of the American business world, and particularly in the distributive trades.

The conclusion seems warranted, therefore, that wholesaling is on a higher economic plane than either manufacturing or

retailing, and that the wholesaling structure is more efficient than either of the other two, since wholesale establishments are able to pay higher average wages for the services of their employees.[6] This opinion is in line with the conclusion based upon the comparative margins or spreads between cost and selling prices in the respective industries. *It is noteworthy that the wholesaling mechanism, with the narrowest margin, is able to pay a higher average wage to employees.* This does not imply that any particular wholesale establishment is more efficient than a selected manufacturing plant or retail store, for it is quite possible to find individual business units within the wholesale field which are far from efficiently run, just as it is true of any other field of business enterprise. A frequency distribution of wholesale establishments based upon operating cost ratios shows that there are extreme cases at both ends of the distribution as there are for all industrial groups.[7] General averages, therefore, while revealing the basic differentials, do not provide a completely satisfactory basis for comparison although the above results are definitely significant.

It might be contended that data for one year are insufficient evidence upon which to base a conclusion. Fortunately, other data are available which provide additional foundation for the foregoing statement. In 1926 according to the sample or trial census of wholesale and retail trade taken in 11 American cities, average wages in retail stores amounted to $1,370 as compared with $1,980 for wholesale trade. In no city did the retail average rise as high as that in wholesale trade, although there was a wide difference between trades falling within both wholesaling and retailing; and minimum wages in some branches of wholesaling were lower than minimum wages for certain other retail trades. When comparison with manufacturing is attempted, no data are available on the same basis for the year 1926. Some light may be had on the probable level of manufacturing wages by examining the data for 1925 and 1927. In 1925 the average wages paid in manufacturing were $1,279, while in 1927 the

[6] A further qualification is necessary to make this conclusion valid, namely that the same categories of skilled, unskilled, executive, and other employees are found in all three industrial divisions and in the same proportions. The fact that there are differences in the type of labor calls for caution in drawing positive conclusions from these data.

[7] See Chapter 24 on "Costs and Profits in Wholesaling."

corresponding figure was $1,299. Both of these figures are lower than the average wage paid for retail employees in the 11 cities in 1926, and much below the wholesale trade average.

The question may be raised as to whether the effect of the depression has not been to level some of these differences. In other words, has wholesaling been able to maintain its relative superiority during the difficult days of the depression? Data relative to this question are available for the year 1933. Average wages declined in the period between 1929 and 1933 in manufacturing, wholesaling, and retailing, but the rate of decline was uneven in the three industrial groups. Manufacturing wages fell from an average of $1,315 in 1929 to $869 in 1933, a decrease of nearly 34%. Average wages in retailing fell from $1,312 to $986, or by nearly 25% in the same four-year period. Wholesaling also shared the downward trend, average wages dropping from $1,875 to $1,508. This decline, however, was less than 20% and left average wholesale wages relatively higher than they were in 1929.[8]

Some Factors Explaining Wage Differentials.—It may be argued that the maintenance of these differentials in favor of wholesaling, may be explained by incidental factors, such as the influence of custom, the relative skill required of the workers, and the lack of competition. In the first place, custom, no doubt, has had some effect upon wage determination in wholesale trades, because the wholesaler is traditionally conservative. While this opposition to change may have served to perpetuate higher-than-average wage scales, it is doubtful if it has been strong enough to account for the large differentials which exist between wholesaling, particularly in the newer fields, and other types of business, and in view of the fact that the wholesaling data include a wide variety of integrated as well as independent wholesaling establishments.

Lack of competition likewise, cannot be cited as a reason for differences in wages. The pressure of competition within the field of wholesaling has been so strong in recent decades, that it has exerted a counteracting force which might logically be

[8] See Chapter 23 for fuller data on employment and wages and incidence of the depression.

expected to reduce wages towards the levels paid in retailing and manufacturing. Code provisions for minimum wages under the National Recovery Administration indicated a conjunction, in theory if not in practice, of wages in some of the related wholesale and retail trades. Minimum wages for the general wholesale code, for example, were set at $14 to $15 per week of 40 hours as compared with $10 to $15 per week of 40 hours (minimum) for the general retail code. In the food trades the minimum wages were identical for wholesale and for retail codes, being $10 to $15. The hours, however, were 44 for the wholesale food trade and 48 for retail employees in food stores, which means an actual hourly wage somewhat higher for the wholesale group.[9]

Another factor which may in part account for varying wage levels is an immensurable but probably extensive difference existing between the use of skilled and highly trained personnel by wholesaling on the one hand, and retailing and manufacturing establishments on the other. While there are no data available showing the exact difference, it is probable that in most trades there is a larger proportion of work in wholesaling which calls for proficiency and training, than is found in manufacturing, and that a similar, although less extensive, differential exists between wholesale and retail trade. To the extent that wholesale establishments require a higher percentage of trained employees than do retailers or manufacturers it is to be expected that average wages will be higher. Even when some allowance has been made for such factors as this, however, it appears that wholesaling makes a creditable showing on a comparative basis with other parts of our economy.[10]

Relative Efficiency of Major Wholesaling Types.—The foregoing discussion of inter-industrial specialization has indicated the relative economic superiority of wholesaling over other fields of production. There remains the problem of intra-industrial efficiency within the broad field of wholesaling itself.

[9] See Figure 34 (page 586), "Major Provisions of National Recovery Administration—Wholesale Codes," issued by the Bureau of Foreign and Domestic Commerce, June 30, 1934.

[10] In 1929 wholesaling employees, exclusive of salesmen and executives, earned average wages of $1,420 which may be compared with $1,315 for wage-earners in manufacturing and $1,312 for *all* retail employees, including executives and salespeople.

There are three major types of wholesaling establishments which constitute the battleground of competition within the field. These are the independent wholesale merchants, still the dominant type; the wholesale branches of manufacturers who have sought to eliminate wholesalers; and the chain store warehouses, or the wholesaling departments of integrated wholesaling-retailing chain systems, which deal directly with the manufacturer and primary sources of supply. A fourth type is rapidly becoming more important as a result of the efforts of manufacturers to avoid the use of wholesalers. This is the manufacturer's agent which is being utilized by many manufacturers instead of the more costly sales branch. This type still specializes in a relatively few functions as indicated in Chapter 14, concentrating very largely on selling. It is not, therefore, comparable on a functional basis with the sales branches and chain store warehouses which more closely parallel the regular wholesaler.[11]

Even the three major types of wholesaling establishments are not strictly comparable in that they do not exactly parallel each other either in merchandise carried, sales areas covered, or functions performed. In general, the independent wholesale merchant maintains a much broader line of merchandise and covers a wider territory with a less highly selective trade than does either of the other types. Normally, he also performs a larger variety of functions, so many in fact that he is frequently called a *full-function* wholesaler. The manufacturer who maintains his own sales branch usually limits his stock to his own products, although occasionally he may carry a few complementary lines. Moreover, he generally locates his warehouses or sales branches in rich territories, leaving the more sparsely settled regions to the wholesaler. He is also apt to curtail his services much more than does the independent wholesaler, being more *independent* about size of orders, extension of credit, collections, deliveries, and the maintaining of stock. The third type, the chain store warehouse, has an even narrower field of

[11] The wholesaler member of a cooperative wholesaler-retailer chain is not considered as essentially different from the regular wholesaler. He is, as is shown in Chapter 28, a regular wholesaler, who has taken on the cooperative chain business as a defensive measure against the corporate chains and other competition.

operations. Since its major function is to service the retail outlets of the chain, it has a definitely restricted territory in which to operate, and requires no sales force. Most chains make large use of direct deliveries from manufacturers and producers. The supplier is expected to deliver the merchandise to the retail stores, and is thus utilized to perform wholesaling functions such as warehousing and delivery. The function of extending credit is also eliminated, since cash-and-carry methods predominate in chain store policy and retail outlets must account for all merchandise at very short intervals, moneys usually being deposited to the account of the chain daily.

The foregoing reasons should be kept in mind as explaining some of the differences in operating costs shown in the accompanying analysis. They do not explain all of the differences, and, in fact, should not be allowed to obscure the many similarities between these three major competitive types of wholesaling establishments. To the ordinary observer of the physical plant and its operations, very little difference would be apparent between a wholesale merchant's establishment, a manufacturer's wholesale branch, and a chain store warehouse in the same line of trade.

Of these three types, the chain store warehouse has the lowest operating ratios in all lines save the hardware and the furniture and house furnishings trades. In the latter trade the chain stores have operating expenses of 18.6% of net sales which are higher by 4.2 points than those of manufacturers' wholesale branches but 4 points lower than those of wholesale merchants. In two other lines of trade, electrical goods and farm supplies, expenses for the chains are nearly as high as those of the other two types. In the remaining lines of business, and especially in groceries, drugs, dry goods, clothing, and automotive products where chains have made substantial progress, they have much lower costs. The general conclusion seems warranted, that, for those wholesaling functions which they elect to perform, the chain systems are relatively much more efficient than the competing methods of wholesaling, in so far as operating ratios are a measure.

Wholesale merchants have the highest operating ratios in 7 out of 12 comparable lines of business, although in 3 of these, dry goods, farm supplies, and groceries and foods, the differential between wholesalers and manufacturers' wholesale branches is slight. In 3 other lines, drugs, farm products, and general line groceries, all major jobbing lines, the wholesale merchants have substantially lower operating ratios than do the manufacturers' wholesale branches. No general conclusion can be drawn from these data, other than to state that the advantages of maintaining wholesale sales branches over utilizing the services of wholesale merchants appear to be limited to a relatively small number of trades, especially when the services rendered by the wholesaler are taken into account (see Chapters 13 and 24).

Conclusion.—In this chapter an attempt has been made to analyze the problems of the economic efficiency of the organized wholesaling mechanism of the United States and to draw tentative comparisons of that mechanism with agriculture, manufacturing, and retailing. Since distribution through specialized wholesaling units is a form of economic specialization, and since specialization is generally accepted as the corner stone of economic efficiency, it follows logically that a specialized wholesaling system should be more efficient than a non-specialized method of performing wholesaling functions. Adam Smith made this point and rested his case on the theoretical argument.

Additional evidence is available in the recently assembled data on operating margins and on average wage rates. A study of these facts reveals that wholesaling establishments, as contrasted with other major economic segments, have lower average operating margins and yet pay higher average wages. In brief, the organized wholesaling structure performs the economic functions assigned to it by competitive forces at a lower gross margin or fraction of sales than obtains in retailing, manufacturing, or agriculture.

Moreover, within the field of wholesaling there is a keenly competitive condition which is reasonable insurance against stagnation. With wholesalers vying with manufacturers on

the one hand, and with chain systems on the other, for the right to perform the wholesaling functions, the stage is set for a continuation of relatively lower gross margins in wholesaling, if not of higher wages, unless these wholesalers are called upon to render additional or more elaborate services for which the public is willing to pay.

CHAPTER 26

WHOLESALING IN A PLANNED ECONOMY

Economic planning is a subject of vital social importance which in recent years has been receiving belated recognition. It seems appropriate, in completing Part IV of this work, to direct attention towards the relation which wholesaling bears to this subject. Such an analysis is not only a fitting conclusion to the examination of wholesaling economics which has preceded it, but it is also an expedient stepping stone to the final section of this book on the future of wholesaling.

The Main Elements in Economic Planning.—By economic planning is meant a method of action on the part of society for the collective ordering of a nation's economic life. It includes or should include at least three major aspects. The first is the *determination of an objective* or goal; for, unless planning is aimed at the positive achievement of a desired end, it would of itself be aimless or planless. The goal of economic planning as proposed for the United States appears to be an economic system which will provide the American people with an adequate standard of living, continuously. This objective envisages an uninterrupted employment of labor, capital, and other economic resources, and an equitable distribution of the wealth produced.

A second essential element of economic planning is the *necessity for fact-finding.* Before any intelligent plan can be put into effect, a complete inventory of both economic and non-economic resources must be taken, and, in addition, as complete data as possible must be gathered on what goods and services consumers want and are able and willing to buy. Elaborate fact-finding machinery must be set up to collect basic data *regularly,* in order that changes in both demand and supply factors may be noted and adjustments made in the program, since any sound economic plan must be dynamic. The third factor in

economic planning is the necessity for a *satisfactory mechanism* for achieving the desired goal, which has been formulated in view of the facts revealed by research. In other words, the problem is to devise a method whereby the productive resources of the nation may be so well employed that the highest possible standard of living for all will be realized continuously.

There are two alternative possibilities for implementing an economic plan. The first and most commonly conceived method is to substitute complete governmental control for private initiative. This method is based on the assumption that it is impossible to have effective economic planning with any political system short of complete socialism. The second alternative is a compromise method, which submits that it is possible to retain some of the advantages of the competitive system by extending state control only to the elimination of those elements of the present system which have become subversive. Observing that the existing economic system is inadequate and subject to chronic severe breakdowns, advocates of the second method point out that a violent overthrow of the competitive economy seems to be inevitable if it is not improved. They offer the constructive suggestion that it is wiser to extend existing controls over the present economy and to provide new ones, in order to retain as large a measure of its advantages of private initiative and freedom of enterprise as possible, than it is to see the entire system overthrown.

Thus it is the opinion of the authors that economic planning may be carried out under either a capitalistic or a socialistic régime.[1] In order to study its practical application, however, it becomes necessary to look to the example of the Union of Soviet Socialist Republics, since in actual practice there has been no large-scale use of planning in any other country. While economic planning is a comprehensive subject which touches upon all phases of the national economy, it is the purpose of this chapter to discuss the relation of wholesaling to such planning and its necessary inclusion in any workable economic system. Such an examination is indispensable because of the

[1] While there are theoretical distinctions between communism and socialism, in practice they are apt to be so merged as to be indistinguishable. Russia which is called communistic is now actually practicing socialism, and the leaders acknowledge this.

prevailing misunderstanding of wholesaling and its significance in the economic structure.

Wholesaling in a Socialist Commonwealth.—The economic necessity for a wholesale distribution system in a capitalistic society has been established in the foregoing chapters from both the historical and the analytical points of view. If it is found that wholesaling is also a necessary part of the economic structure of a socialistic state, its essential nature under any type of economy likely to prevail would seem to be established. This conclusion flows from the general belief that under a socialistic system of government the state would presumably eliminate all non-essential elements. Theoretically true, such an assumption is almost certain to be realized in any very sudden transition from a capitalistic to a socialistic state. The common feeling that middlemen are parasites and that distribution is excessively costly would probably focus attention upon wholesale middlemen, with the result that radical groups, suddenly taking control of a government, would be very apt to begin their reforms by attempting to eliminate wholesaling institutions. Such behavior is the more likely because, in the quick transition from capitalism to socialism, planning would not have progressed beyond the first of the three stages noted above. Even the objective of planning is apt to be clothed in vague terms, and little or no thought be given to the necessity for fact-finding until long after the new régime is established. The final stage of planning, adjusting the working technique to the facts, emerges only after a lapse of time. Fortunately, for the sake of the scientific economist, it is not necessary to theorize about the probable trend of events under socialism since the Russian experience provides an objective study of what has taken place in the rude transition from an ancient capitalistic system to a novel socialistic state.[2]

By way of introduction to this experience it is well to point out that the real difference between the Russian political economy and that which prevails in the United States is not inherent in

[2] The authors are indebted to Mr. E. C. Ropes, Chief of the Russian Section of the U. S. Department of Commerce, for much of the data in the following pages on Russian experience.

the implicit distinction found in the use of the word "capitalism." The cleavage does not lie in the *use* of capital but in the *ownership* of capital and other economic factors of production. In our western civilizations, as contrasted with the Russian system, capital and land are owned by individuals; the individual is free in theory, and largely in practice, to dispose of his own labor, and, finally, has freedom within broad limits to organize and engage in any business he sees fit. In a purely socialistic economy the state owns all capital and land, controls labor, and is the sole entrepreneur or business proprietor. This means that the state marshalls the economic forces of production and assigns them to their respective tasks in producing and distributing the wealth of the nation.

Trade During the Early Stages of the New Order.—The Russian people floundered through the preliminary years of their struggle without evidence of a very well-considered plan of action, and certainly with no provision for a planned wholesaling system. Under the Tsarist rule the wholesaling business of Russia was largely free from governmental regulation and was organized on the independent proprietorship, the corporate, or joint stock company basis, and into consumers' cooperatives typical of other parts of Europe and of the United States. During the short-lived Lvoff and Kerensky régimes which followed the overthrow of the older form of government in March, 1917, the Provisional Government found it necessary to regulate the marketing system. Foods, especially, were brought under state control and the private monopolies in grain and flour were confiscated. Following the October, 1917 Revolution, internal as well as foreign trade became a part of the state's economic activities. This status continued until the establishment of the New Economic Policy (the N. E. P.), early in 1921.[3] At that time, it will be recalled, the Russian authorities deemed it wise to stop and appraise their progress. The tremendous task they had set for themselves needed to be reorganized on a sounder basis, and economic planning was injected into the picture. Some temporary relaxation of complete

[3] Based upon Soviet Union Year-Book, 1929.

socialism gave private trading establishments, both wholesale and retail, a renewed opportunity. Such trade, however, was supplemental to the consumer cooperatives and the state-owned trading establishments and was, moreover, subject to strict regulation.[4] The statistics contained in Table 46 give some idea of the relative distribution of domestic trading organizations during the years immediately preceding the first *piatiletka,* or five-year plan, which was inaugurated in 1928.

TABLE 46. TURNOVER (SALES) BY TYPE OF TRADING ORGANIZATION—U. S. S. R.: 1924-1928 (In Billions of Rubles)

Year	Total		State Trade		Cooperative Trade		Private Trade	
	Wholesale	Retail	Wholesale	Retail	Whole sale	Retail	Wholesale	Retail
1924–25	6,707	7,906	4,060	1,322	2,019	3,212	628	3,372
1925–26	11,322	12,284	6,234	1,976	4,100	5,526	988	4,782
1926–27	15,213	13,562	7,640	2,155	6,793	6,987	780	4,420
1927–28	21,725	12,785	8,447	1,104	12,959	8,231	318	3,451

(Source: Soviet Union Year-Book, 1929.)

The total number of trading organizations, if these statistics may be relied on, had increased from 187,500 during the first half of 1924-25 to 761,211 by the end of 1926. No breakdown is available for the different kinds of establishments save for the year 1926 at which time there were 4,189 private wholesale houses, comprising less than a quarter of all wholesale establishments. There were, however, nearly 600,000 private retail stores accounting for about 80% of all retail places of business. The sales or turnover figures throw additional light on the changes which took place. The total volume of wholesale turnover increased by more than 200% between 1925 and 1928, a change which was in part a resultant of the rising price level. At the same time the incidence of the Revolution is revealed by the decrease in private wholesale trade volume, which was already relatively small, by approximately 50%, while state-owned

[4] The cooperatives were originally the consumer-owned variety typical of Western Europe. As the Soviets gained power these cooperatives continued but became subject to increasing state control.

wholesale establishments more than doubled their sales, and consumer cooperative wholesale houses increased their turnover more than sixfold (see Table 46).

Retail trade was more stable in its course. While total retail trade increased by approximately 61%, state retail trade declined slightly for that period. Except for the first year, private trade showed a steady decline, falling by some 28% between 1925 and 1928. Practically all the gain went to the cooperatives, the sales of which increased nearly 160% during the four years. The significant point is that private retail trade was slowly losing ground. Furthermore, the relatively greater decline in private wholesale trade indicates a growing dependence of private retailers on state and cooperative sources of supply, which was another factor designed to bring about the gradual elimination of all private trading. The very sharp decline in private wholesale trade in the 1927-28 period, the year which saw the inception of the first five-year plan, suggests that greater pressure was being exerted against these remnants of a "capitalistic" economy. This is indirect evidence that the only *distribution* planning during the early years of the Revolution was the general socialistic objective of eliminating private business. While Lenin had a rather comprehensive general plan in mind for the Russian economy as a whole, there appears to have been no definite thought given to the requirements of an adequate system of wholesale and retail distribution, but rather a blind effort to weed out private traders and replace them with state and cooperative substitutes.

The First Five-Year Plan.—What actually took place in Russia during the first five-year plan which extended from 1928 to 1933 is best summarized by one who was living there throughout this period in the capacity of an observer. Mr. W. H. Chamberlin, journalist and historian, points out that,

> The limited concessions which were made to private business enterprise under the New Economic Policy have been swept away, and no one in the Soviet Union today may own or operate the smallest kind of store, workshop, or restaurant, while private farming is also well on the way to elimination.[5]

[5] W. H. Chamberlin, "Russia's Iron Age," p. 268, Boston, Little, Brown & Co., 1934.

This widespread planless elimination of private trading had many dire consequences, as might be expected. It had particularly unfortunate effects upon Russia's available food supply. Discussing this particular phase, Chamberlin describes the changes which took place between 1921 and 1928 and what happened during the first five-year plan in the following words:

The greatest change in the daily life of the Soviet citizen during recent years has been in the matter of food supply. From 1921, when the New Economic Policy came into effect, until 1928, there was no trace of rationing in the Soviet system. Foodstuffs were bought, without limitation as to quantity, in stores, just as in other countries, the only difference being that under the Soviet system there were fewer private shops and more state and cooperative stores.

The first pinch of food shortage was felt in 1928, and by the end of 1929 a widespread rationing system was in operation. At the same time a merciless drive of expropriation and confiscation was launched against the private traders. At the present time there is not a private business enterprise of any size and consequence throughout the length and breadth of the Soviet Union. The only private 'traders' who remain are old ladies of the former régime who maintain a miserable existence by disposing of brooches, bits of lace, and other finery; individual peasants who bring a few carrots or a pat of butter to the market; and street hawkers of such commodities as worm-eaten apples and children's toy balloons.[6]

The official statistics of the Union of Soviet Socialist Republics showing what took place between 1930 and 1934, amply bear out Mr. Chamberlin's conclusions about private trading. It is reported that "By 1931 private traders had been almost completely ousted from Soviet trade." [7] This means that in one year 47,200 private retail outlets with sales of one billion rubles (about 5% of total retail sales) were *liquidated.* New socialized shops sprang up in their places and the total volume of trade conducted by state and cooperative stores increased steadily until in 1934 it was more than three times as great as their reported volume for 1930. In the meantime private wholesale trade disappeared with the drying up of independent retail outlets.

It is important to marketing students to note that the transi-

[6] *Ibid.*, p. 109.

[7] Economic Survey No. 3—May-June, 1935, U.S.S.R. Chamber of Commerce, Moscow, 1935, p. 24.

tion to socialism and the elimination of private trading took many years to accomplish. As was noted previously, internal trade came under the control of state authority in the latter part of 1917, yet it was not until 1931, fourteen years later, that private trading was stamped out. This long continuance of private trading, however, was not the result of any approval of private business by the authorities. Rather was it tolerated because of the keen necessity for wholesale and retail agencies and the inadequacy of state and cooperative institutions to fill in the gap as rapidly as the authorities would have liked.

Neglect of Wholesaling During the First Piatiletka.—The early neglect of wholesaling and retailing needs, noted previously, continued to exist under the first *piatiletka*. In so far as the authors have been able to discover, the early plans contain no reference to wholesaling. The economic basis for this omission probably lies in the fact that the Soviet authorities were forced to consider first the problems of production. The immediate concern was to get goods produced, not how to distribute them. In other words, the wholesale warehouses so common in the United States were not necessary in Russia because of the paucity of commodities produced. There was no cushion of surplus production between the consumer and the producing agency, no reserve stocks of goods which needed to be warehoused. The shelves of the retail outlets were notoriously bare, and long consumer queues waiting for an opportunity to secure whatever the stores could get, characterized the Russia of the first five-year plan.

There was also a neglect of other wholesaling functions under the new régime which had equally evil consequences. Lack of coordination in the wholesaling task of physical distribution was particularly noticeable. Whereas in the United States it is found to be more efficient and economic to ship most commodities in carload lots from the producer to the wholesale markets, and there to redistribute them by rail or truck to the retail stores, in Russia there has been inadequate transportation to distribute the products of Russian industry to the great consuming centers. It is interesting to note that Mr. G. Zberzhk-

hovski, a Russian writer, attributes some of the transportation problems to a "widespread underestimation on the part of some trading organizations in 1930 and 1931 of the importance of developing wholesale trade," which led to an excessive volume of small orders "direct from the factories to shops."[8] This disregard of the wholesale buying function "led in 1930 and 1931 to an increase in the number of underloaded goods wagons (freight cars) on the railways, retardation of traffic, and increased costs of transport, and what was most serious of all, an increase in the number of unassorted consignments to retail shops." Continuing, he adds:

> All this prevented the distribution of goods from being properly regulated with a view to satisfying the specific requirements of consumers in different parts of the Union. Goods were sent to retail shops either in excessively large consignments which made it difficult for trading organizations to pay for them, or in excessively small consignments in which case it was impossible for retail shops to make the necessary assortments required to cater for the everyday needs of consumers.[9]

Direct distribution thus failed to meet the needs of the Union of Soviet Socialist Republics' system of distribution at two major points. It proved to be wasteful of transportation resources since it attempted to eliminate the valuable function of assembling merchandise in car lots at strategic points from which they could be redistributed in small quantities to the retailing outlets. It also failed to provide the retail units with adequate assortments of goods. The retail stores were allotted either too-large quantities, with resultant overstocking and deterioration, or too-small quantities, with frequent delays in delivery leaving them short of needed stocks. The importance of wholesaling and the functions which a wholesaling system can perform for an integrated, socialized structure of production, distribution, and consumption are thus laid bare. Steps have since been taken to improve the transportation facilities of Russia, which will in turn help to put buying on a more scientific basis. Students of marketing will recognize from this discus-

[8] *Ibid.*, p. 24.
[9] *Ibid.*, pp. 24-25.

sion the essentially basic nature of wholesaling functions, since they are fundamentally identical whether found in the Union of Soviet Socialist Republics or in the United States of America.

The Beginning of Distribution Planning in Russia.—The neglect of distribution in Russian planning until quite recently has been partly due to the fact that the problems of production have been more pressing, and that the resultant flow of consumers' goods has been relatively small. The emphasis placed upon production, especially upon the building of producers' goods, such as factories, machinery, and equipment, resulted in a failure to provide for an adequate and orderly system of wholesale and retail distribution which reduced the expected increased flow of consumers' goods from the new productive equipment. The need in Russia, therefore, has been and still is for a thorough-going study of the marketing problem.

Some attention has been given recently to marketing research by the Soviet government, according to reports from foreign observers. For example, efforts have been made in recent years to discover the nature of certain consumer wants, such as the attitudes of Russian peasant women towards particular textile patterns.[10] In this instance, however, it was found that the productive equipment was not available to make goods of the chosen patterns, which blighted the natural fruits of the research. The trouble was that planning and research were not coordinated. While the nature and variety of consumers' wants are necessary information for a comprehensive analysis of distribution, it would seem that one of the first tasks which should be attacked by market research technique in Russia is the problem of more efficient methods of physical distribution for existing commodities. Reports of great waste and spoilage of foodstuffs through improper handling both in transit and in the various wholesale and retail storage and distribution depots should be investigated and corrected. Two important leaks in the food supply have been noted, which are due to faults in the distribu-

[10] Accounts of these activities appear in "Russian Economic Notes" No. 281, p. 3, Sept. 15, 1934; and No. 305, p. 6, Sept. 30, 1935, U. S. Dept. of Commerce.

tion system. The leakage caused by defective marketing machinery is explained as follows:

An abnormally large proportion of the vegetables became spoiled in transport, partly because they were poorly packed, without proper ventilating holes, partly because even short-distance shipments sometimes required several days for completion. . . . More vegetables were lost because of poor handling and long delay between the arrival at the central warehouse and dispatch to the stores. For this leakage sheer incompetence and bungling, lack of labor and transport, seem to have been about equally responsible.[11]

Another, perhaps minor, indication of the planless development of the distribution system is the diversification of socialized shops which has sprung up and still continues to exist in

TABLE 47. RETAIL TRADE BY TYPE OF SHOP—U. S. S. R., 1930-1934
(In Billions of Rubles)

Type of Shop	1930	1931	1932	1933	1934 (estimate)
Centrosoyus and Sections	12.2	17.3	21.0	19.6	20.5
Other Cooperative Organizations	1.1	.9	1.5	1.7	1.7
Retail Department of Commissariat for Home Trade	1.2	3.2	6.9	8.8	14.7
Retail Department of Commissariat for Food Industry	1.6	2.2	4.0	5.2	5.9
Retail Departments of other Commissariats	......	.3	.6	.4	.6
Other Forms of State Trade	1.5	.8	1.2	2.4	2.3
ORS (Workers Supply Departments in Factories and Offices)	......	......	.3	4.8	8.5
Total	17.6	24.7	35.5	42.9	54.2
Turnover of Dining Rooms and Refectories	1.3	2.7	4.8	6.4	6.6
Total	18.9	27.4	40.3	49.3	60.8

(Source: Economic Survey No. 3—May-June, 1935, U. S. S. R. Chamber of Commerce, Moscow, 1935, p. 23.)

Russia. Such an outcome indicates an evolutionary process rather than a carefully planned program (see Table 47). The rapid and haphazard growth of these various types of retail outlets in part precipitated the transportation difficulties above

[11] W. H. Chamberlin, "Russia's Iron Age," p. 98.

described, and led to belated official recognition of the need for doing something about a wholesaling system.

Progress in Distribution Planning in Russia.—The Union of Soviet Socialist Republics is now facing the problem of distribution planning in earnest. A decree by the Central Committee of the All-Union Communist Party was issued in May, 1932, which placed all cooperative wholesale trade under the control of Centrosoyus, the official trade monopoly.

The following quotation outlines what was done.

> The subsequent growth in State trade and also the subdivision of the All-Union Council of National Economy into three People's Commissariats, i.e., the Commissariats for Heavy Industry, Light Industry and the Timber Industry, made it necessary to reorganize wholesale trade throughout the country. The system of wholesale organizations, both those with Union-wide activities and those having inter-regional functions, was in the hands of the marketing corporations attached to the branch industrial corporations of the Commissariats for the Heavy, Light and Timber industries.
>
> Further, by April of the same year (1932) the Central Committee of the Party and the Council of People's Commissars gave concrete instructions as to the necessity of creating a new system of wholesale depots for the Light, Heavy and Food industries. As a result of measures carrying out this decision, the following types of wholesale depots were formed (latter part of 1932)
>
> 1. Socialized wholesale depots formed by the corresponding industrial commissariat in the different regions.
> 2. Wholesale depots of regional importance for the supply of non-shortage goods and handicraft goods, attached to the trade organizations themselves (both State and Cooperative) were continued and extended.
> 3. Wholesale inter-district depots for all kinds of goods for consumers' cooperatives and State trade.[12]

Table 48, following, shows the outcome of this definite planning, and the minor adjustments which had to be made in the distribution of these depots in the first two years of their existence.

Systematic Organization for Foreign Trade.—In the field of foreign trade, an important segment of the wholesaling struc-

[12] Economic Survey No. 3, May-June, 1935, U.S.S.R. Chamber of Commerce, 1935, p. 25.

TABLE 48. SYSTEM OF WHOLESALE DEPOTS—U. S. S. R.: 1933-1934

	Number of Depots		
	Jan. 1, 1933	Jan. 1, 1934	Jul. 1, 1934
Commissariat for the Food Industry	328	305	305
Commissariat for Light Industry	313	350	350
Commissariat for Heavy Industry	50	49	53
Commissariat for Timber	33	103	103
Committee for State Deliveries	177	160	160
Centrosoyus	359	382	373
Commissariat for Home Trade (Glavtorg)	615	597	597
Total	1,875	1,946	1,941

(Source: *Ibid.*, pp. 25-26.)

ture, the Union of Soviet Socialist Republics gave earlier recognition to the need for a specialized wholesaling system. Export and import trading was consolidated under a state monopoly, Commissariat for Foreign Trade, which is a single, All-Union corporation for trade with foreigners. The American branch of this agency, Amtorg, is well known in this country. Furthermore, the need for specialization was admitted by the establishment of a number of subsidiary export corporations, each of which handles separate groups of commodities. Among these subsidiaries may be mentioned Technoexport, which handles such technical goods as machinery and related products, electrical equipment, radios, telephone equipment, metals and other metallic products; Mineralsilikatexport, which exports minerals, building materials, glass, china, porcelain, salt and matches; Exportles, the timber export corporation; Soyuspromexport, which exports chemical goods, vegetable oils, textiles, paper products and certain minerals such as asbestos; Raznoexport, which exports bristles, horsehair, casings, feathers, raw hides and finished leather and imports woolen rags, raw hides and sole leather; and Soyusintorgkino, the corporation for the export and import of films, cinematographic and photographic goods.[13] These organizations parallel, in some meas-

[13] *Ibid.*, advertisements.

ure, the specialized exporting and importing houses found in capitalistic countries.

The reason for the earlier attention to foreign trade and the better development of wholesaling corporations dealing in such commerce lay in the necessity for securing commodities produced in other countries, chiefly machinery, machine tools, and certain raw materials to implement the industrialization program contained in the first Five-Year-Plan. It is possible that when the urgent need for foreign goods is somewhat mitigated, greater attention will be directed toward the improvement of the domestic trade sector. Students of marketing in the United States will be alert to developments in this field, and will be interested in seeing what techniques are developed and applied to the building of the Union of Soviet Socialist Republics' distribution system of the future, especially since there appears to be a growing interest both in economic planning and in the improvement of the distribution structure of the United States.

A Proposed Plan for the United States.—One conclusion from the Russian experience when added to that of other countries is outstanding; namely, that wholesaling in the broad sense of the term as defined in Chapter 2, is an inescapable part of any existing social system and a part which cannot be ignored in economic planning. There may be many shifts in the agencies which perform the wholesale marketing function, but some specialized wholesaling agency appears to be inevitable under socialism or capitalism. It may be wise, therefore, to indicate the steps that can and should be taken to preserve and improve the wholesaling structure of the United States. The general outline of the steps of economic planning which was given at the beginning of this chapter can be applied here. The goal of an American plan should be a more efficient system of wholesale distribution than we now have. This problem requires a scientific, fact-finding approach if it is to be solved adequately. Much groundwork has been laid, as the earlier chapters in this volume indicate, but much more remains to be done. This planning, moreover, cannot be limited to any small segment of the marketing structure since all parts of it are

closely intertwined. In fact, once the goal is set and the facts are found, the solution must apply to our entire economic structure. As stated earlier in this chapter two alternatives are possible: the complete socialization of industry or the extension of necessary controls to the existing system in order to preserve it by insuring its better functioning. The authors believe that the American people prefer to retain the present order, by eliminating its objectionable features rather than contemplate a complete shift to socialism. They believe also that the wholesaling structure in particular can be improved by sound economic planning under the existing competitive economy through eliminating many uneconomic aspects. The first logical step towards this goal of a higher marketing efficiency is to measure the kinds and quantities of goods which consumers want; in other words, marketing research on an extensive scale is essential. Some of the steps which should be taken and the general nature of this research are briefly indicated in the following discussion.

A scientific, unbiased approach to this question is the study of consumer budgets, and of income statistics.[14] With adequate samples from the different strata of the population it should not be difficult to estimate, at least roughly, the goods which are needed, and hence the ones which should be produced and distributed. Once a fairly definite idea is secured of what and how much people want, the next step is the determination of the best method of production. This requires knowledge of the number and capacity of producers of *capital goods* necessary to give the desired flow of consumers' goods as well as the number and capacity of producers of *consumers' goods.* If the existing production units have too great or too little capacity, economic planning would call for appropriate adjustments with the ultimate objective of gaining the maximum benefits of specialization, both industrial and geographic, of large-scale production, and of other factors conditioning economic efficiency.[15]

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[14] This problem has been attempted in this country by the Brookings Institution in "America's Capacity to Consume" by Leven, Moulton and Warburton, published in 1934, and in a study of consumers' expenditures initiated in 1935 by the Federal Bureau of Labor Statistics and the Bureau of Home Economics as a W.P.A. project under the general supervision of the National Resources Board.

[15] See F. M. Taylor, "Principles of Economics," The Ronald Press Co., 1921, Ch. VII, "General Conditions of Productive Efficiency," for a clear discussion of these factors.

After production problems have been dealt with, the next consideration is that of wholesaling needs. This requires the determination of the number, variety, size, and location of the retail outlets or consumer contact points. The retailing structure should be conditioned upon population concentration and consumer buying habits, but actually it has grown up with little or no regard for the real economic need. It has been held that there are now far too many retail stores and that a large proportion of them are economically indefensible. Some economists point out, on the other hand, that a widespread availability of retail outlets is not only a great convenience to consumers but may result in sufficient savings to offset the losses sustained by the inefficient storekeeper. The exact truth about this problem has never been determined; therefore, the gathering of such data would be another essential step in a study of the wholesaling needs of the country.

Given a thorough factual analysis of the variety and volume of production on the one hand, and the number and location of retail outlets on the other, it would be comparatively easy to estimate the desirable wholesaling capacity for both consumers' goods and producers' goods. The storage reservoirs needed to care for reserve stocks and their proper locations could be determined with some precision. The difficult problem would be how to fix upon the exact type of wholesaling system which would be most efficient, that is, how to differentiate between the various possible types of wholesaling institutions which would operate the wholesale plants. Even in Russia where the state is master, it has been necessary to establish a variety of wholesaling agencies to meet the needs of the country, such as cooperative wholesale establishments, specialized export and import houses, and the more recently organized state system of wholesale depots for food, light industry, heavy industry, and timber.

In the United States, under our present economic system of relatively free competition, the problem of allocating wholesaling functions to the various competing agencies would be more complex. Essentially it is the same as that of controlling production and retail agencies since the three problems are interdependent. Under the socialistic Russian system such problems

are solved by the state as sole arbiter. In the United States dependence has been placed to a large extent on the automatic functioning of a competitive price structure. This reliance upon competitive prices has been supplemented by a measure of regulation, such as that of the Interstate Commerce Commission for railroads and Federal Communications Commission for communication. This regulation has been held necessary since such industries are either naturally monopolistic, imbued with a public interest, or both. Efforts to prevent monopoly and unfair trade practices in other industries have been implemented by anti-trust laws and the Federal Trade Commission. The National Recovery Administration attempted to carry regulation much further in the fields of manufacturing and trade while in agriculture the Agricultural Adjustment Administration extended government supervision over another part of American industry. It is in a further extension of governmental control, within the fabric of the existing competitive structure, that some hope of solving these problems lies.

The failure of past efforts should not deter the attempt to go forward to achieve the desired goal, which was discussed at the beginning of this chapter. Profiting by past mistakes new methods should be evolved. Further legislation will be necessary to eliminate unfair and cut-throat competition and wasteful and inefficient expansion. To prevent unfair competition in intrastate as well as in interstate commerce will require either a constitutional amendment or uniform action by all of the state legislatures. For example, the establishment and enforcement of strict and rigid regulation of wages and hours of labor would place all competitive businesses on a more equal footing than now prevails. The elimination of wasteful and inefficient practices would necessitate legislation limiting the various types of producing, wholesaling, and retailing agencies to the number and capacity indicated as necessary for the most economic use of the nation's resources by impartial marketing analysis. Existing limitations on radiocasting stations and railroad lines are indicative of what might be done over a broader field if the collection and analysis of adequate factual data showed such restrictions to be desirable. Licensing systems or some similar

method of restriction would be required to make such control effective. How far such devices could be extended without unduly curtailing individual initiative is a serious question. A prerequisite to such a program is the perfection and use of marketing and economic research and analysis. Within these rather wide and not impractical limits the competitive principle, with its great advantage of automatic functioning through the price-profit relationship, should be allowed to adjust the wholesaling system to the needs of the community.

Those who believe that economic planning can never be achieved without complete socialization of industry may object to the foregoing suggestions. While it is possible that such a view may be true, nevertheless, it would seem to be the part of wisdom for those who believe the existing economic system to be desirable to make the attempt to utilize the benefits of economic planning in order to avoid the possible complete overthrow of the present order. In any event, all should agree that a sound policy for the United States is to concentrate on the second element of planning, namely, the collection of comprehensive data on the existing system and its functioning. It may be that, by the process of education through the widespread dissemination of facts on the wholesaling structure, as well as on other parts of the economic system, business policies may eventually become so enlightened that the existing system will rectify its major defects and continue to function indefinitely.

PART V—TRENDS IN WHOLESALING

CHAPTER 27

BASIC WHOLESALING PROBLEMS

Thus far the authors have endeavored first, to paint a picture of the background of wholesaling, next, to examine in some detail the modern wholesaling structure and its functioning, third, to scrutinize the practical workings of wholesale establishments as going business organizations, and finally, to estimate the economic significance of wholesaling from the angles of prices, employment, wages, costs, profits, efficiency, and economic planning. In this concluding Part, an attempt is made to knit together the salient points touched upon in earlier chapters and to present, not so much a forecast of the future, as to furnish a basis for an independent evaluation of wholesaling by the student. An apt introduction to this phase of the study is the following statement by Flint Garrison, Director-General of the Wholesale Dry Goods Institute:

> Just as the technique of wholesaling has changed in the past to meet changing needs and changing opportunities, so may we anticipate changes in the future, for the universe of wholesaling is change. The primary cause of change is obviously the pressure of competition. Wholesaling finds it necessary to change its technique to meet or adapt itself to oncoming competitive forces.[1]

The Setting for the Problems

Mass Production Comes of Age.—The birth of the twentieth century gave no token of the dynamic unfoldments it was to bring forth. Improvements in production, initiated by the Industrial Revolution, had been gathering momentum for a hundred years; like the moth which breaks through its cocoon,

[1] Statement on the "Future of Wholesaling" before the American Marketing Society, Atlantic City, N. J., Nov. 30-Dec. 1, 1934.

industrial progress was ready to emerge from its nineteenth century chrysalis, and be off for great adventure. Mass production with its foreshadowing of mass distribution was thus ushered in, and, gaining momentum with the advance of the century, had by the end of the first decade, deposited some full-fledged problems on the threshold of the marketing structure.

Distribution or selling had given producers relatively little concern in the last part of the nineteenth century following the reconstruction period after the war between the states, because, with rising prices and increased economic advancement, producers were hard pressed to supply enough goods to fill the insatiable maw of a persistent sellers' market. It was only after production had successfully conquered the technical problems of providing vast quantities of low-priced merchandise that it became increasingly difficult to market the flow of goods which welled from the robot factories. Production thus outstripped the capacity of the distribution structure, and the latter began to show signs of strain under the heavy burden placed upon it. The marketing system gave evidence of stress in the wholesaling segment which was the most vulnerable to attack.

Wholesaling, especially in the narrowest sense of the term,[2] bore the brunt of this greatly accelerated evolutionary process because of its position in the *no-man's land* between producers and retailers. Manufacturers who had formerly welcomed the availability of wholesalers to relieve them of their selling problems found increasing difficulty in disposing of their growing volume through such established channels. Competition among producers multiplied the number and variety of items which the wholesaler was forced to stock. Mounting inventories, coupled with increased sales resistance from retailers, generated by a multiplicity of similar competing products, explain, in part, the wholesaler's reluctance to serve the manufacturer in the time-honored way. The regular wholesaler, moreover, proved to be very reactionary. Having reigned as king of the distribution realm so long, he had come to accept his position as a divine heritage. He was reluctant to abdicate in the face of new conditions, and equally unwilling to readjust his methods

[2] See Chapter 2.

of operation. The result has been that, while wholesaling has continued to flourish and expand, the dominion of the old-type wholesaler has been partitioned among the many newcomers discussed in earlier chapters, who now share with the wholesaler the right to perform the inescapable wholesaling functions.

The underlying explanation of the rapid fruition of mass production, beyond the capacity of the marketing mechanism to handle effectively, lies in two elements, specialization and research. While the basic economic principle of specialization or division of labor was early extended to a wide range of productive operations, including agriculture as well as manufacturing, little or no thought was given to specialized distribution until recently. The chief reason for the wider application of specialization to production lies in the second element, research. Research became the fetish if not the faith of the advanced stages of the Industrial Revolution, being extended to almost every phase of production including management, as quickly as the natural sciences and engineering techniques became perfected. It led naturally and easily into larger and larger scale operations, into the mechanization of manufacturing processes, in short, into assembly-line fabrication with all of its ultra efficiencies.

In one sense, it is true, there has always been a large measure of specialization in distribution. The ancient alignment of economic functions into production, exchange, distribution, and consumption, as well as the further subdivision of the marketing aspects of production into wholesaling and retailing, represents specialization, in a broad sense of the term. In reality, there is the same potential basis for distribution efficiency through the application of research and specialization to the wholesaling and retailing functions as to other producing elements. Practically, there has been an unfortunate but understandable lag in the application of research to marketing, a defect which is now being corrected, as will be noted later.

Problems Raised by Mass Distribution.—It was natural that, once the problem created by mass production became apparent, the same techniques which had furthered production

should be applied to distribution. The result has been the development of large-scale or mass distribution to match and to cope adequately with the problem of marketing the huge outpouring of mechanized industry. A description of the development of direct buying and selling, and the specialized agencies which have evolved to handle these activities, is only the beginning of the study of these problems. It is essential to an understanding of wholesaling economics to look for the more fundamental causes of these outward manifestations of change. Why was it that mass distribution led to the partition of wholesaling? Why has the struggle for the right to perform the wholesaling functions centered around the old-line wholesaler? What conditions made it possible for mail-order houses, department stores, and chain systems to dot the landscape with their integrated wholesaling-retailing organizations? Why did manufacturers and oil refiners set up their own wholesale branches and bulk tank plants? Equally pertinent are the following questions which are less directly related to mass distribution. What has caused the growth of manufacturers' agents, group buying, cash-and-carry wholesaling, and wagon distribution? Is there any underlying justification for supermarkets, cooperative distribution, and consumers' cooperation? Any appraisal of the future of wholesaling must find the answers to questions such as these.

The Changing Price Level

The Sellers' Market.—The answers to some of the problems raised by new distribution technology may be found in an examination of the price level. It is noteworthy that prices, after reaching a low point in the mid-nineties of the last century started to climb and advanced steadily throughout the first decade of the twentieth century. Thus, for nearly a business generation, there had obtained what is technically called a *sellers' market* during which wholesalers experienced very little difficulty. Business practice became crystallized into a pattern, which was profitable while it lasted. With price levels rising higher and higher each year, wholesalers did not hesitate to make advance commitments for a season and sometimes for a

year or more ahead, which was a very satisfactory arrangement for most manufacturers. The wholesaler had the double protection of selling futures to retailers who were anxious to buy, and of the rising price level, which insured that his inventory at the season's end would be worth more than he paid for it.[3]

Change to a Buyers' Market.—There is evidence that the price level was reaching a turning point about 1910, and that the sellers' market was shifting to a buyers' market. This was a natural outgrowth of the rapid expansion of mass production, which might have ushered in a period of declining prices had the World War not intervened. War demand, however, reacted on prices, and they shot upward to a higher peak in 1920 than had been known for generations.[4] Thus the wholesaler was given a temporary respite from the competitive forces which had been gathering strength during the first decade of the century.

His surcease was short-lived, however, since the prosperous war period not only gave him profits but also permitted his competitors to gain a stronger foothold, with the result that the sharp contraction of prices in 1921 worked havoc among wholesalers. The decline in prices which had been interrupted by the war period and its immediate aftermath set in again in 1921 and continued, with minor recoveries in 1923 and 1925, until a low point was reached in 1932. The wholesaler's position was seriously threatened by this turn of events. Harassed as he was by the *new competition,* he also had to face a market condition quite alien to his experience. The tenets of wholesaling upon which he had been raised were no longer valid. A business generation of wholesalers, educated on rising prices, had to readjust itself to a new environment of falling prices, inhabited by strange creatures which were striving to devour it.

Hand-to-Mouth Buying.—Retrenchment became the order of the day and hand-to-mouth buying was the answer to de-

[3] This statement is a generalization which should not be taken to mean that all wholesalers prospered. Even under the most auspicious circumstances some individual business men fail just as others succeed when general conditions are unfavorable.

[4] The index for wholesale prices in 1920 was 154.4% of the 1926 level as compared with the next highest point of 132 for the year 1865. Statistical Abstract of the United States, 1935, pp. 292-293.

clining prices. If the consumer would not buy in quantities, neither would the retailer, and many a wholesaler saw no alternative but to follow the same policy. This defense mechanism of refusing to buy more merchandise than was needed for current demands had its serious repercussions upon those wholesalers who adopted it. It was a device better adapted to some of their new competitors, such as chain systems and department stores, than to their own operations. It proved to be a boomerang in that it induced the manufacturer to seek other methods of disposing of his wares. Thus wholesalers encouraged producers to sell directly, either to large-scale buyers or through new wholesale distribution systems of their own. Not all wholesalers were as short-sighted as this analysis implies. Some of them took advantage of the hand-to-mouth buying policy of retailers and made it their own *raison d'etre.* Since retailers were buying frequently and in small quantities, these far-sighted wholesalers were glad to supply adequate stocks and service to meet the demand, thus profiting by a recognition of their own prime responsibility as wholesalers. A very large percentage, however, practiced hand-to-mouth buying themselves, considering it a protective mechanism against a hostile environment.

Many wholesalers were enabled to withstand the demands of a hand-to-mouth buying policy adopted by their customers partly because of the large number of comparatively small-scale producers who could not afford to resort to the more expensive methods of direct selling. These producers continued to provide sources of supply for the wholesalers. Moreover, surviving wholesalers gradually adjusted themselves to their surroundings; a newer generation filled in some of the gaps in the ranks of the regular wholesalers; and novel wholesaling methods such as cash-and-carry wholesaling, drop-shipping, or other variations which have been described in earlier chapters made their appearance.

Should the price level continue its general downward trend it seems probable that the wholesaler will not be eliminated, since he has been severely tried by the fire of a vexatious decade and has learned how to meet adverse price conditions. Should the price level start upward and continue in that direction for a

long period of time, a less likely possibility in view of the upward trend in productive efficiency and the slacking in the rate of population growth, the wholesaler's problem would be much easier.

Problems Arising from Socio-Economic Trends

An examination of price-level trends gives considerable insight into the problems of wholesaling but there remain many questions which need further analysis. Among these are important socio-economic trends which help to explain certain obscure parts of twentieth century developments. For example, the shift from a sellers' to a buyers' market needs further amplification, especially from the standpoint of other than the purely economic causes. Among these may be mentioned the automobile, style trends, the motion pictures, the radio, each of which, while it has its economic implications, has exerted a strong influence upon the mode of living and is therefore tinged with sociological import.

Automobiles and Wholesaling.—The rapid progress made in transportation during the twentieth century centers about the inventions and perfection of automotive equipment and the building of hard-surface roads. Quite apart from the distribution of automotive products, at least three phases of this development have impinged upon wholesaling, first the growth of the passenger automobile, second the displacement of horse-drawn wagons by the automobile truck, and finally, the repercussions of automotive progress upon rail transport. The passenger automobile has revolutionized American buying by providing the average citizen with inexpensive and highly flexible mobility. Once the technical problems of automotive production were solved and a network of good roads were provided, this new vehicle proceeded to demolish old-established trading centers and replace them with new ones. Retail trading areas were first affected, but wholesaling also felt the influence of this new mobility of the population. Trading was very largely confined to the local stores in the '90's and early 1900's, since relatively few people could afford the luxury of a horse and

carriage. The rural population laid in supplies for a week or more from the nearest crossroads store or county seat. Urban dwellers were beginning to utilize the telephone to order their groceries and meats, and progressive retailers combined telephone with personal solicitation of consumers' business. To reach the department and specialty stores which were found in the downtown shopping districts of the larger cities, the rank and file of the population made use of street cars, first horse-drawn and later electric. Only the wealthy families could afford the use of carriages for shopping.

By the time of the World War the seeds of change were well-rooted and by the early '20's the new plant was well grown. Farmers and city folk alike had automobiles, and used them in their shopping. Instead of stopping at the local county seat several miles from home the farmer soon learned that he could, in about the same time he used to spend in going to town, drive to a larger trading center twenty or thirty miles away. Similarly, people who lived in cities of ten, twenty or thirty thousand, quickly adapted themselves to driving to the nearest metropolitan center for certain purchases. The outcome was the redefinition of retail trading areas, a strengthening of certain trading centers and a weakening and disappearance of others.

While other forces, such as the growth of mail-order retailing, had been at work in breaking down the local retailing structure, it required the automobile to carry the process to such a point that even the mail-order houses were forced to establish department store branches in large trading centers. Progress in the automotive industry contributed to some extent to more rapid growth of the chain system of distribution and to an expansion of department stores, both of which depend upon a mass market for their success. Indeed, the expansion of these newer types of distribution went hand in hand with the increase in the number and use of automobiles and the development of good roads. Each fed the other. The automobile made it possible for the consumer to reach the larger trading center and the appearance of smart, modern retailing establishments in the trading centers attracted consumers. Both consumers and retailers profited from this development which caused it to con-

tinue and to expand. The most recent development in retailing that has been facilitated or made possible by the automobile is the supermarket. In a study conducted by a graduate student of one of the authors it was found that about 90% of the people visiting the supermarket usually came in their own automobiles, and 3.5% reached the store by means of free buses operated by the supermarket.[5]

The repercussions of this trend upon wholesaling were widespread. The newer types of retailing not only did their own wholesaling but also crowded out many of the retailers who had supported the wholesaler. Direct distribution by producers was also facilitated by this process for it at once narrowed the retailer market, made it more compact, and hence easier to reach. Offsetting in part these restrictive tendencies was the fact that wholesalers were able to increase the scope of their operations by the use of the same good roads and the new automotive equipment. Wholesalers' salesmen, when equipped with automobiles, were able to cover a wider territory than ever before and to cover it more frequently and more thoroughly. Automotive trucks enabled the wholesaler to make store-door deliveries 75 miles or more from his warehouse. Moreover, the growth of the trucking industry in competition with railroads provided the wholesaler with additional advantages in assembling and distributing his wares. Lower rates and improved service followed this competition. These latter advantages, however, were also available to the wholesaler's competitors and likewise contributed to their expansion.

Warehousing.—Closely related to the changing transportation pattern has been the development of public warehousing. Merchandise warehouses have sprung up throughout the country and have been a contributing factor in the growth of direct distribution by producers. Among the existing types of warehouses are grain elevators, petroleum storage tanks, cold-storage plants, merchandise warehouses, potato warehouses, bonded warehouses, and many other specialized types. They are designed to care for a wide range of commodities, including agri-

[5] Virginia R. Shipley, "Supermarkets in the Retailing of Groceries," an unpublished Master's thesis presented at the Ohio State University, August, 1936.

cultural as well as manufactured goods, perishable and non-perishable items, liquids and solids. A manufacturer may utilize warehouses for the storage of his goods at strategic points throughout his market, and whenever he receives an order from a particular community he need only notify the warehouse in that location to make delivery from his stock. The use of warehouses has often been forced upon the manufacturer by the persistence of hand-to-mouth buying. Even where wholesalers have been used, it has too often been necessary for producers to provide stocks because the wholesaler was unwilling to carry them.

One of the most interesting developments is the growth of field warehousing. This type of warehousing carries the function of or responsibility for storage to the producer's very doors. Field warehousemen take over the merchandise of a producer either in finished form or at some stage in the productive process, and store it in their own or on the producer's premises. Their most important function is the issuance of negotiable warehouse receipts which the producer may use as security for a loan. It has been estimated that there were some 3,000 field warehouses in the United States in 1936 as contrasted with 100 ten years earlier.[6] Since a producer can secure a warehouse receipt as soon as he places his merchandise in the custody of the warehouseman, he can, in turn, borrow more readily from his bank on the security of the warehouse receipt as collateral. A new angle to this comparatively old marketing agency is the transfer of the warehouseman's operations to the plant of his client. The warehouseman "establishes a bailment, takes custody of the commodity stored, and issues his warehouse receipts for the goods." Thus the "familiar warehousing function (is) moved to the natural location of a commodity at any point of its flow from raw-material production to the consumers' hands" and "individual lots of the storer's assets are segregated, and absolute title and control are covered by the warehouse receipt—while the commodity remains physically in its natural commercial channel, stored in its vats, tanks, docks, or wherever

[6] *Business Week*, Mar. 28, 1936, as reprinted in "Domestic Commerce," Vol. XVII, No. 10, Apr. 10, 1936, p. 211.

special accommodations are required for it."[7] Although less of a direct threat to the wholesaler than other types of warehousing, this newer emphasis tends to strengthen the ties between producers and warehousemen, and may react unfavorably upon the position of the established wholesaler by encouraging more direct distribution through the use of warehouses.

Style, Motion Pictures and Radio.—A more strictly sociological development which has exerted far-reaching influence upon distribution is the invention and perfection of motion pictures and radios. The former was well under way as a popular medium for entertainment before the World War while the latter was perfected technologically by war needs and did not become an effective social force until well into the 20's. The incidence of movies and the radio upon wholesaling has been real, if indirect, since they have proved to be strong forces for the simultaneous adoption of style and fashion goods throughout the United States. The result has been a simplification of marketing problems of manufacturers in that the same styles have been generally acceptable throughout the country at the same time, whereas formerly there was a distinct lag between the Middle West and New York, and the Pacific Coast and the Middle West. Thus *style parity* has replaced *style lag*. There has also been a quickening of the style tempo as a result of these socio-technological devices. Until quite recently seasonal or annual changes were sufficient to meet the demands of the people but now styles may change as frequently as once a month, a complicating development for wholesalers and manufacturers alike.

Retailers, wholesalers, and producers have had to face the problem of supplying the demands of consumers thus generated by movies and radios. Retailers have sought more direct contacts with producers in the belief that only by so doing could they be sure of fresh stocks of the latest styles. The popular assumption that wholesalers of the old-fashioned type could not satisfactorily market fashion merchandise has, however, never been proved. The fact that many wholesalers actually do handle such goods successfully would seem to refute the argument;

[7] *Ibid.*

nevertheless, the wholesaler has suffered from this general belief and direct selling and buying have increased as a result.

Advertising.—Advertising had contributed substantially to the modern problem of wholesaling before either the movies or the radio were more than laboratory toys. It was to advertising that the manufacturer turned early in the twentieth century when he first encountered sales resistance among wholesalers. He soon discovered that by intensive and continuous publicity he could establish consumer pressure which compelled reluctant wholesalers to stock his wares. But advertising did even more to the wholesaler than to whip him into line. It was an effective tool in the manufacturers' hands for building more and more direct distribution. Once a strong and persistent demand had been created for a product by advertising, the manufacturer was reluctant to allow the wholesaler the old discount, based in some measure upon selling functions no longer required. The wholesaler objected to any reduction in his discount, and the result has been a struggle which has frequently led to complete elimination of wholesalers by certain manufacturers, who felt that since they were performing much of the selling function they could easily take over the other wholesaling functions and control the distribution of their own products more effectively. Thus, advertising has served as a channel for widening the gap between producers and wholesalers and has encouraged direct selling.

Financing.—The development of new methods of financing has also contributed to a decline in the relative importance of the wholesaler. Originally well entrenched financially, one of the prime functions of the wholesale merchant was the financing of both producers and retailers. Advances were frequently made to manufacturers in anticipation of future deliveries. Even where advances were not required, invoices were customarily discounted promptly, a fact which relieved the producer of financial worry. The passage of the Federal Reserve Act, which liberalized the credit structure of the nation and introduced the rediscount process for commercial paper on a new and enlarged scale, tended to relieve the manufacturer of his

dependence on the wholesaler for short-term capital, by making it possible for him to borrow more readily from the banks. It was, therefore, easier for the producer to free himself from his tie to the wholesaler and to experiment with other, usually more direct, methods of distribution. Again, the wholesaler's position was weakened from an unexpected source.

Summary of the Basic Wholesaling Problem.—Not all of the problems of wholesaling have been touched upon in the foregoing brief examination of some of the major trends of the twentieth century, but enough have been examined to justify a few conclusions about the present status of wholesaling in the United States. The first of these is that *the wholesaler of the old school has definitely lost ground since the first of the century.* While he probably accounts for as much, or more, business as ever, he is not handling as large a share of the total wholesaling volume as in the past. In other words, he has lost ground *relatively* while gaining *absolutely*. Although he remains the most important single type of wholesaling institution, he is faced with the definite alternative of mending his ways or submersion to a place of lesser and lesser importance. He has not been eliminated, as is so commonly believed, and is not likely to be.

A word of explanation is necessary here, however, to avoid misunderstanding. What is meant by saying that the wholesaler will probably always remain is that *some* of the so-called regular wholesalers will persist. Already certain varieties of the old-line wholesaler have gone or are rapidly vanishing. This is particularly true of the so-called *national wholesaler.* This term has always been a misnomer since genuine wholesalers who operate on a complete nation-wide scale have been very rare. Those which have usually been so classified have in reality, with few exceptions, been manufacturers as much as wholesalers, most of their national selling being in their own private brands. The changing tides of modern distribution have tended to diminish the importance of this type of wholesaler still further, or have converted him into a direct-selling manufacturer, although as indicated in Chapter 29, this type of wholesaler may profit from the trend in Federal and state legislation.

Sectional wholesalers who occupy a middle ground between national and local distributors have maintained their place in certain trades such as drugs, hardware, and dry goods. These wholesale merchants are usually well entrenched financially, operate on a fairly large scale and have a tradition of successful dealing behind them. As a result many of them have been alert to progress and have continued to prosper; others, the more conservative, have given way to the newer competition.

It is in the field of *local wholesaling* that the regular wholesaler has his greatest opportunity as well as his greatest challenge. In the grocery and food trades especially, the competition has been keen for local wholesalers. This very competition, however, has had the stimulating effect of arousing them to the need for modernization in their technique and methods, and, as a result thousands of such wholesalers have profited. To what extent the position of these wholesalers will be weakened because of recent legislation remains to be seen (see Chapter 29).

A second point that juts out from the turbulent sea of wholesaling is the fact that there is a *great variety of newer types of wholesaling institutions* which are competing with the old-line wholesale merchant. These wholesaling functionaries include cash-and-carry wholesalers, drop-shippers, wagon distributors, bulk tank stations, chain store warehouses, manufacturers' wholesale branches, agents, brokers, assemblers of farm products, and many other types. Some of them, as has been explained before, operate as independent middlemen, others are integrated wholesaling divisions of producers, or of large retail distributors. All appear to be well established as parts of the wholesaling structure although the high operating expenses of certain of them in relation to services rendered arouse suspicion as to their permanency.

Thus, a mighty struggle is in process between competing types of wholesaling agencies, a struggle which has been precipitated by the growth of mass production, by shifting price levels, and by the socio-economic developments discussed above. The student of economics cannot fail to be impressed with these developments as an outstanding example of the self-corrective process of economic adjustment. Inefficient and out-moded

methods of distribution crumple under the impact of such intense competition as prevails in the field of wholesaling.

Corrective Developments

Marketing Research.—One of the corrective forces which is beginning to be recognized in the field of wholesaling is that of marketing research. Thus far the results of such research have been largely indirect and second-hand since very few wholesaling agencies have established research departments in their own businesses. The progressive few, however, have profited far beyond their expectations, and it is to be hoped that wider utilization of such methods will be made. The indirect use of research has taken place either through trade associations, which have conducted investigations for their members, through University Schools of Business Research which have made studies and published the results for the benefit of the cooperating wholesale houses, and through the Federal Government. The Department of Commerce, particularly through the Bureau of Foreign and Domestic Commerce and the Bureau of the Census, not only conducts research for the benefit of wholesalers, but serves as a focal point for the distribution of the latest knowledge on marketing developments to all interested business concerns.

Selective Distribution.—Many corrective developments have been derived from marketing research. One of the most valuable is known as selective distribution, which, although practiced by relatively few business companies even today, is receiving increasing attention as a method of reducing distribution costs. The term *selective distribution* is a typically American *catch phrase* which describes but vaguely a complicated subject. Selective distribution is a process of analyzing the market and selecting certain parts of it for cultivation, while discarding other parts as unprofitable. The complications arise in determining the basis for selection. The manufacturer who plans to modernize his distribution practices has a number of alternative channels open to him for selling his product. He will find a number of *bases* for selecting the correct channel or combi-

nation of channels, among which are geographic or territorial factors, number and variety of middlemen, direct selling possibilities, and number and variety of ultimate consumers.

The manufacturer of consumers' goods faces an entirely different problem of selection from that of the producer of industrial goods. Market research may indicate the use of a single channel of distribution such as the utilization of brokers or agents, or the use of a combination of channels. It is primarily a problem of factual analysis as a basis for intelligent business planning. The added advantage to a manufacturer who distributes through selected agencies instead of promiscuously to all who would buy his goods, lies in the cooperation which he secures from his selected clientele.

Wholesalers should also make use of this scientific approach to their selling problem. This is true particularly of that phase of selective distribution known as customer analysis. Several studies have been made by the Department of Commerce,[8] which show a wide range of differences among customers of wholesale houses as to volume of business, credit standing, cost of selling, and geographic location. An examination of the accounts of wholesalers shows that a more careful selection of customers is essential. If it actually costs more to sell goods to a particular customer than the account could ever be expected to yield in net profits, that customer should be dropped. As it often happens, it not only costs more to sell to the fringe of unprofitable accounts, but these very accounts are poor credit risks and frequently cause added losses through default or bankruptcy.

The wholesaler who would embark upon selective distribution should not jump to the conclusion that his small accounts are all unprofitable. The correct method is to analyze each account on its own merits. It sometimes happens that a small beginning may have a successful ending; therefore, it might be wise to incur temporary loss in selling to certain accounts which may ultimately become profitable. Such cases are the exception, however, and should be treated as such. The general

[8] Louisville Grocery Survey, St. Louis Drug Survey, and Wholesale Druggists' Operations, available from U. S. Department of Commerce, may be cited. See also Chapter 21.

policy should undoubtedly be to eye with suspicion all unprofitable outlets.

As it is actually practiced, selective distribution is a policy which lies somewhere between that of promiscuous selling to anybody who would handle the goods and operating on an exclusive agency basis. Thus, instead of a manufacturer distributing his goods in a given territory through a single wholesaler exclusively or through all wholesalers operating in his line of trade, under a policy of selective distribution, he chooses a limited number of the available wholesale outlets in the territory, the choice being governed by profitableness of the accounts, degree of cooperation and other factors. When a wholesaler decides to adopt selective distribution in dealing with retailers, he follows a similar plan.

Consumers' Cooperation.—The failure of the marketing system to put its house in order as quickly as some people have desired, coupled with the disruptive and unsettling influence of the depression, has stimulated a new interest in consumers' cooperation as a substitute for the existing competitive methods. This is not a new phenomenon, however, in the United States, the idea having been borrowed from England[9] early in the nineteenth century. Quite successful, though sporadic, attempts were made in this direction in New England as long ago as 1847 when the Workingmen's Protective Union was founded. This organization, later called the New England Protective Union, showed an expansion of sales from $18,000 to $180,000 in three years from 1848 to 1851.[10] Other attempts followed both in New England and in other parts of the country, but initial successes were followed shortly by failures until little or no trace of the movement was left by the close of the Civil War. Periodic efforts have been made to revive consumers' cooperation but heretofore a brief period of expansion has been followed by rapid decline or failure.

The idea will not down, however, and is very much alive in the United States today, having shown a persistent tenacity in the face of formidable obstacles to its growth. It was estimated

[9] See Chapter 15 for a brief discussion of the movement abroad.
[10] Norman Ware, "The Industrial Worker." Boston, Houghton Mifflin Co., 1924.

by the Department of Agriculture that there were some 275 consumers' cooperative stores in 1915, doing a business of about $14,500,000, or an average of nearly $53,000 each, and having a membership of over 60,000 cooperators.[11] In 1916 the Cooperative League of America was founded with the objective of popularizing the cooperative idea. This organization, under the leadership of Dr. J. P. Warbasse, has been very active in furthering consumers' cooperation. The League's estimate of the size of the movement in 1919 gave the number of societies in the United States as three thousand and the number of members as 500,000. The estimates of the Bureau of Labor Statistics gave the number of societies in 1920 as approximately 2,500, and the number of members as 775,000.[12] At that time the American movement was following the English Rochdale model and as many as ten cooperative *wholesale* societies were established. In 1919 the National Cooperative Association was formed by federating the state and sectional wholesale societies. Branches were established strategically throughout the nation and plans were laid for a large development of cooperative marketing. The break in prices in 1920, however, was too much for the new organization and it failed.[13]

The Bureau of Labor Statistics has continued to study consumers' cooperation. Its recent reports indicate that in 1933 there was a total of 2,517 societies with aggregate sales of $87,495,582. When this figure is contrasted with total wholesale trade of $32 billion in the same year, and $25 billion of retail trade, it is clear that the consumers' cooperative movement remains a very insignificant part of the American distribution structure. The sales of local consumers' societies, which are more clearly comparable with retail sales, made up less than .2 of 1% of the total retail trade for 1933, while the business of the wholesale societies which amounted to $8,748,926, constituted but .08 of 1% of the sales by all wholesale merchants in the United States in the same year.

Reports received by the Bureau of Labor Statistics from

[11] Bulletin No. 547, United States Department of Agriculture.

[12] *Monthly Labor Review*, Vol. 15, pp. 444-448, 1922.

[13] The foregoing discussion is taken from N. H. Engle, "Competitive Forces in the Wholesale Marketing of Prepared Food Products," *The Bulletin*, National Wholesale Grocers' Association, Jan., 1930.

cooperative wholesale societies disclose increased earnings, and greater benefits to members since 1933. Reports were received from 12 regional wholesale societies whose combined wholesale business amounted to over $27 million in 1935, which was a considerable gain over 1933 sales. Net savings of approximately $777,000 were effected, of which over $400,000 was returned to member societies as refunds on their patronage and almost $65,000 was paid in interest on share capital.[14]

In discussing the possibilities of the movement the Bureau of Labor Statistics points out that it has been greatly influenced by economic conditions. Depression periods exert the double influence of encouraging the formation of new societies and of making it increasingly difficult for the old societies to succeed, since low wages and unemployment sap the resources of the cooperators.[15]

In view of the much greater expansion of consumers' cooperation in England during a period of practically identical duration, the question which naturally arises is why has the American movement been slow to develop. Many arguments have been advanced to explain why the movement has been backward in the United States. Professor Francis G. Peabody of Harvard cites the four following conditions which he claims are essential to success in cooperative enterprise.[16] The movement must be an independent one; the population must be immobile; there must be a strong social urge to save; and finally, there must be a spirit of cooperation, or a feeling of unanimity of purpose. It is generally agreed that the absence of these conditions in America has been the chief cause of failure of cooperative efforts on the part of American consumers, whereas their existence in England has contributed much to the success of the British movement. This is probably less true today than at any previous time, and as economic conditions in this country approximate those which existed in England at the time the movement

[14] *Monthly Labor Review*, June, 1936, pp. 1551-1560, Washington, D. C., Bureau of Labor Statistics, Department of Labor.

[15] See "Consumers', Credit, and Productive Cooperation in 1933," Bulletin No. 612, Bureau of Labor Statistics, Washington, D. C., Government Printing Office, 1935.

[16] James Ford, "Cooperation in New England." Introduction by Professor Peabody, Survey Association, Inc., New York, 1913.

received its greatest impetus there, a greater development of cooperation may be expected.

To be sure, other factors, such as the earlier appearance and growth of the chain stores here, may interfere permanently with the growth of consumers' cooperation in America. One of the most serious hindrances to consumers' cooperation in the United States has been the neglect to recognize the importance of good management. This has been true in a double sense. On the one hand, it has been pointed out that the superiority of independent American merchants over corresponding British dealers has given cooperatives in the United States stiff competition, whereas in England the cooperatives, themselves, have easily surpassed the independents. On the other hand, American cooperators have allowed personalities rather than business judgment to govern in the selection of managers. Since men who are imbued with the spirit of cooperation are not necessarily good business heads the results have frequently been far from desirable. Again, good managers have been hard to hold because of the unwillingness of the cooperators to pay the necessary salaries. Cooperators are gradually awakening to the necessity of securing and keeping competent managers, so that here again the future may tell a different story.

On the whole it must be concluded that the more serious obstacles to consumers' cooperation in this country are now much less formidable than they have been. In fact it is not unreasonable to anticipate a somewhat larger development of that movement in the future. But for the present, unsubsidized consumers' cooperation is not a serious competitor for the wholesaler's functions since such organizations have failed to reduce materially his outlets. Much more significant is the producers' cooperative marketing movement, discussed in Chapter 7, and distributive cooperation which is the subject of the following chapter.

CHAPTER 28

COOPERATIVE WHOLESALE DISTRIBUTION

Many of the current problems of independent wholesalers and retailers date back to the early history of distribution in this country. Cooperative wholesale distribution is one method which was initiated at least 50 years ago in an effort to avoid some of these problems such as price cutting, price maintenance, discounts, and allowances. Thomas H. Lord, president of the National Wholesale Druggists' Association, in 1879, said in his presidential speech: "Is it right and just upon an even market to offer and sell even a few articles at a price less than, or so near to, the purchase price as to fail to pay their proportionate part of the actual expense of conducting business?" [1] Later, this same drug trade turned to the Tripartite Plan, which was dissolved by a Decree of Consent in 1907, in an unsuccessful effort to free that industry from indiscriminate channels of distribution.[2]

Price cutting, a problem which has come down through the years to plague manufacturers, wholesalers, and retailers alike, can be classified under one of two headings: namely, predatory or economic. By predatory price cutting is commonly meant that which is based upon ignorance of operating costs and a fair net profit or upon the determination to cut prices irrespective of known costs. Such action in either case leads eventually, if continued long, to failure. If, however, the assets at the disposal of the predatory price cutter are large, his actions may involve a number of less fortunate competitors before he, too, closes his doors or succeeds in establishing a substantial monopoly.

Economic price cutting arises from entirely different reasons. Large-scale distributors claim, with some justification, that they effect savings which they should be allowed to pass on

[1] "A History of the National Wholesale Druggists' Association," The National Wholesale Druggists' Association, New York City, 1924, pp. 29-30.
[2] *Ibid.*, p. 39.

to their customers if they so choose. Efficiently managed independents and consumers' cooperatives reserve for themselves the same right. Ultimate consumers usually agree with this point of view.

Many service wholesalers, medium-sized and small independent retailers, and some manufacturers have confused the issues; they lump predatory and economic price cutters together and have turned to legislation for protection from them. As a result we now have so-called anti-chain store legislation, fair trade practice laws, the Robinson-Patman Act, and the well-supported Tydings bill.[3] Many wholesalers and retailers, however, have not been satisfied to maintain their "rugged individualism" or even to rest their case upon legislation. They have turned to methods of self-help, with the result that cooperative efforts are found in many of the distribution trades today.

Degree of Cooperation.—The degree of cooperation in the distributive trades ranges from an occasional buying pool, organized informally by a small group of wholesalers or retailers for the purpose of purchasing a carload of some particular brand, to a highly developed organization which performs all the marketing functions itself. Distributive cooperation can be classified as follows:

- Cooperative (pool) buying.
- Cooperative buying and advertising.
- Cooperative buying and advertising, with a warehouse.
- Cooperative buying and advertising, with a warehouse and supervisors.[4]

Essential Definitions.—A cooperative chain is defined as an association of independent retailers acting cooperatively either by themselves or with a wholesaler to obtain advantages in buying, advertising, or in the performance of other merchandising functions or activities.[5] Cooperative or so-called

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[3] See Chapter 29.

[4] See "Cooperative Grocery Chains," Federal Trade Commission, Washington, D. C., 1932, p. 11, for basis for this classification.

[5] These definitions and those immediately following are based upon definitions found in "Cooperative Grocery Chains," Federal Trade Commission, pp. 3, 6.

voluntary chains can be broken down into two groups: retailer-owned and wholesaler-sponsored, depending upon who organized and continues to control the operation of the organization. The retailer-owned type is an organization of independent retailers which advertises, functions as a wholesaler, or performs other merchandising activities cooperatively; it is not connected with any particular wholesaler in such activities. The wholesaler-sponsored type is a group of independent retailers affiliated with a wholesaler for buying, advertising, or other merchandising activities.

The above terms are frequently used in the grocery trade. In the drug business, the term "mutual" is erroneously applied. It arises from its use in the title of the Mutual Drug Company of Cleveland and of other cities. This company, while it has many cooperative features, is controlled by one man who is said to own at least 51% of the common voting stock of that organization. In the dry goods, clothing, and furniture trades, the term *buying group* is in common use, to differentiate resident buyers from the cooperative organizations. The wholesale functions are usually performed by the cooperative chain, although in some trades a common warehouse is not maintained, and from trade to trade the methods of performing the common functions vary widely.

Causes of Cooperative Distribution.—As is true with most distributing agencies, any structural change is commonly the result of the forces of competition. The competition faced by the traditional independent retailers and service wholesalers came partially from newer types of agencies. Department stores, mail order houses, and chain-store systems have at different times during the past 50 years forced the individual merchant to consider the rejuvenation of his own policies and methods. Still earlier, however, the small merchants considered cooperative efforts in order to compete with the *down-town* merchant who built up his volume on cut prices. The selling policies of department stores encouraged this trend, particularly in the drug field. Mail order houses endangered the markets of retailers in the smaller communities and rural areas. Later

came the chain stores which, starting in the larger cities, not only spread throughout the important trades but penetrated all neighborhood districts and entered the smaller cities.

As each of these *waves* spread over the merchandising field, fear was expressed for the existence of the independent retailer and service wholesaler, with a resulting stimulation of cooperative effort. This trend was increased materially during the '20's when many service wholesalers became quite conscious of their dwindling volume of sales and joined the retailers in a cooperative effort of self-preservation.

History of Voluntary Chains.—The oldest existing retailer-owned cooperative chain is the Baltimore Wholesale Grocery Company, organized in 1887, followed by the Frankford Wholesale Grocery Company, organized in Philadelphia in 1888. By 1927, there were at least 13 organizations of this kind in the United States which had been organized during or prior to 1910.[6]

The first wholesaler-sponsored cooperative chain consciously organized as such was the Red and White Corporation, originally called the Surv Us Corporation, by the S. M. Flickinger Company of Buffalo, New York. The first Red and White stores were opened in 1922. At the present time, next to the Independent Grocers' Alliance, it has the largest number of wholesale and retail members. The rapid growth of the wholesaler-sponsored chain in the late '20's increased interest in the retailer-owned type, although at no time was the increase in membership absolutely or relatively as great as it was for the former kind of cooperative organization. The figures shown in Table 49, taken from a Federal Trade Commission report, indicate the growth of both types of organizations.

In the drug trade, the New York Consolidated Drug Company in Manhattan was organized in 1887. Almost as old, the Philadelphia Wholesale Drug Company, now one of the largest and operating one of the most modern warehouse buildings in the industry, was organized in 1888.

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[6] Wilford L. White, "Comparative Retail Buying Associations," New York, McGraw-Hill Book Company, 1930, p. 14.

TABLE 49. YEAR OF ORGANIZATION REPORTED BY 226 COOPERATIVE GROCERY CHAINS

Year of Organization	Retailer-owned	Wholesaler-sponsored
Prior to 1890	2	...
1890 to 1900	1	...
1900 to 1910	8	...
1910 to 1915	5	...
1915 to 1920	12	1
1920	2	1
1921	4	...
1922	5	2
1923	2	2
1924	6	2
1925	11	4
1926	13	10
1927	13	24
1928	13	24
1929	14	45
Total	111	115

(Source: Cooperative Grocery Chains, Federal Trade Commission, Washington, D. C., 1932, p. 9.)

Present Status.—In March, 1936, the American Institute of Food Distribution estimated that there were 672 cooperative grocery chains in the United States, with which 101,493 retailers were affiliated. Of this number, only 164 organizations are classified as owned by 23,604 stockholding retailers. The remaining 508 cooperative chains are reported as wholesaler-sponsored, having over three times as many affiliated retailers (77,889).[7]

A further breakdown of these same figures geographically shows the leading states, based upon retail members of both types of grocery cooperatives, as New York, Pennsylvania, California, Illinois, Massachusetts, Ohio, and Minnesota, in the order named. All of these states, with the possible exception of Minnesota, have large urban populations. Competition is undoubtedly keen and the distributors have turned to cooperative methods. Among the retailer-owned houses, the states of Penn-

[7] "Group Selling by 100,000 Retailers," American Institute of Food Distribution, New York City, 1936, p. 50.

sylvania, New York, Minnesota, and California stand at the top of the list. Pennsylvania alone accounts for over 25% of the reported number of retail members. Of the states just mentioned, this is the only one which accounts for more retail

TABLE 50. COOPERATIVE GROCERY CHAIN GROUPS AND RETAIL MEMBERS, BY STATES, MARCH, 1936

	TOTAL		RETAILER-OWNED		WHOLESALER-SPONSORED	
	Groups	Retailers	Groups	Retailers	Groups	Retailers
Alabama	4	224	2	192	2	32
Arizona	1	54	1	54	...	......
Arkansas	3	82	...	......	3	82
California	23	6,245	6	1,731	17	4,514
Colorado	4	1,140	1	80	3	1,060
Connecticut	19	1,225	6	321	13	904
Delaware	3	341	1	151	2	190
Dist. of Columbia	7	819	3	471	4	348
Florida	4	309	...	......	4	309
Georgia	6	534	2	241	4	293
Idaho	2	129	1	75	1	54
Illinois	44	5,149	7	836	37	4,313
Indiana	23	2,976	2	219	21	2,757
Iowa	11	2,118	4	809	7	1,309
Kansas	12	1,396	2	140	10	1,256
Kentucky	4	391	1	252	3	139
Louisiana	5	200	1	67	4	133
Maine	12	1,426	1	57	11	1,369
Maryland	11	1,664	2	580	9	1,084
Massachusetts	51	4,925	12	963	39	3,962
Michigan	28	2,991	7	985	21	2,006
Minnesota	15	4,436	3	1,755	12	2,681
Mississippi	7	359	...	......	7	359
Missouri	19	3,123	5	988	14	2,135
Montana	3	142	1	28	2	114
Nebraska	6	637	1	30	5	607
Nevada	...	......	...	......	...	......
New Hampshire	8	437	2	72	6	365
New Jersey	17	2,420	6	782	11	1,638
New Mexico	...	......	...	......	...	......
New York	78	27,200	20	2,331	58	24,869
North Carolina	5	571	2	66	3	505
North Dakota	2	123	...	......	2	123
Ohio	40	4,441	2	825	38	3,616
Oklahoma	3	298	1	17	2	281
Oregon	8	1,456	1	165	7	1,291
Pennsylvania	90	12,915	38	6,714	52	6,201
Rhode Island	10	605	1	50	9	555
South Carolina	1	40	1	40	...	......
South Dakota	3	293	...	......	3	293
Tennessee	7	624	2	120	5	504
Texas	13	1,643	2	58	11	1,585
Utah	2	445	...	......	2	445
Vermont	6	431	...	......	6	431
Virginia	10	644	4	338	6	306
Washington	16	1,338	2	225	14	1,113
West Virginia	6	648	1	145	5	503
Wisconsin	19	1,823	7	631	12	1,192
Wyoming	1	63	...	......	1	63
TOTAL	672	101,493	164	23,604	508	77,889

(Source: "Group Selling by 100,000 Retailers," American Institute of Food Distribution, New York City, 1936, pp. 52-53.)

members of retailer-owned than wholesaler-sponsored organizations (See Table 50).

Current figures for the other trades are not available. According to the Federal Trade Commission, 23 cooperative drug chains reported a retail membership of 5,721 as of 1930.[8] Even fewer such organizations are found in the hardware and other non-shopping trades. No count was ever taken of strictly *buying groups,* so little is known of their number or size.

Functions of Cooperative Chains

Large-Scale Buying.—Retailer-owned cooperatives in the grocery and drug trades, and buying groups in the several shopping goods trades, are basically buying organizations. Being organized and controlled by retailers, their main desire continues to be that of *eliminating* the wholesaler, his net profits, and as much of his costs as possible. They are interested in discounts and allowances and rightfully claim all those which belong to service wholesalers, corporate chains, or other large buyers. In the grocery trade this point of view naturally led to the establishment of the National Retailer-owned Grocers. This organization has headquarters in the Chicago Merchandise Mart, and is reported by the American Institute as being composed of 88 wholesale houses distributing to 15,682 retail stores. Centralized buying is a cardinal policy of this group.

No similar organization exists in the drug field although the Federal Wholesale Druggists' Association, composed of cooperative and mutual houses, initiated a plan for central buying. Later, fostered by the Mutual Drug Company of Cleveland, an association of URE druggists was organized with headquarters in New York City. The main purpose back of the plan was to sell the window space of the cooperating retail members to manufacturers, and, with part of the income, buy local advertising space in which the consumers were informed that they could buy these items "at URE (your) druggist's."

Savings through centralized wholesale buying are not so significant to the wholesaler-sponsored group as to the retailer-

[8] "Cooperative Drug and Hardware Chains," Federal Trade Commission, Washington, D. C., 1932, p. 5.

owned, since the wholesaler is already established and receives the usual rates. Nevertheless, some of the former organizations have emphasized this function. For example, the Red and White Corporation began as a brokerage agency and still operates in that capacity when handling Red and White and other private brands. For the past several years the Independent Grocers' Alliance headquarters has held buying weeks during which members send their buyers to Chicago in order to receive carload prices on their pooled orders as well as discounts allowed on mass buying.

Both types of cooperative organizations sought and successfully secured not only quantity discounts but advertising discounts and allowances. There is evidence that some secured larger allowances than certain of the large corporate chains. In most instances, this money was used to cover newspaper advertising, window or interior displays, or other types of promotion carried on by the group. In other cases, these allowances were used to offset general wholesale expenses. As a result of the Robinson-Patman Act, activities in this direction have been curtailed, temporarily at least. Some contracts which are being drawn specify, as a result of the passage of this Act, that the distributor must show evidence that he can perform what he promises. If this type of contract becomes common, cooperative chains may have difficulty in *forcing* their independent retail units individually to comply with the group decision as must the retail units of corporate chains.

Cooperative Advertising.—Until the arrival of the wholesaler-sponsored groups, retailer-owned cooperatives did little joint advertising. Emphasis in these latter organizations centered upon buying, not selling. Occasionally a small group of stores would indulge in some community advertising or announce a city-wide sale. The individuality of the cooperating store, however, remained unchanged in most instances.

One of the first to organize an association within the association was the Frankford Grocery Company with its Unity Stores. Members of this smaller group displayed a common

sign and paid for an advertising and merchandising service. This type of work developed rapidly with the growth of the wholesaler-sponsored groups, in which merchandising was given special attention, and cooperative advertising of all kinds, very similar to that of corporate chains, was prepared. Today it is common to find both groups regularly advertising in the local newspapers, issuing a weekly news sheet for the consumer, and distributing window posters and inside display cards.

Central Warehousing.—Practically every retailer-owned cooperative chain started with the distribution of incoming purchases directly from the railroad car or from the back room of one of the more opulent members. In order to secure wholesale prices and discounts, it became advisable for each group to hire a manager and open a warehouse, as soon as possible, in which were usually carried a limited line of merchandise and a relatively small stock. There were many important exceptions, however, such as the Frankford Grocery Company or the Philadelphia Wholesale Drug Company, which probably carry as wide a selection of merchandise and operate as modern warehouses as any wholesale house in the United States. With the wholesaler-sponsored organizations, warehousing is not a question, since groups of this kind are invariably housed in the warehouses of the sponsoring wholesalers.

Merchandising Services.—The retailer-owned cooperative is not a service agency, even today. Normally, it carries a limited line of merchandise, sells on a cash basis or extends credit for not more than one week at a time, makes no deliveries or, at most, limited deliveries, and gives its retailer members little or no advice or help in operating their own retail stores. The explanation of this situation is simple: since the warehouse is owned by the retailer himself, he sees no need of rendering himself dealer help; rather, his desire is to concentrate on the reduction of the wholesale distribution costs. The wholesaler-sponsored group started at the other end of the service scale. Most of them were service wholesalers in the grocery, drug, and hardware trades, accustomed to carrying large stocks of mer-

chandise, extending long-term credit, making almost instant deliveries, and not averse at times to giving some advice as to how the retailer could improve his operations. These wholesaler-sponsored groups have gone much farther than the retailer groups in supplying merchandising services. Supervisors are used who call upon the retail members; and services in the form of advice on store location, layout, matters of management policies, and on many other questions are made available.

Both types of cooperatives have been favorable to private brands, as a merchandising device which tends to place the unit retailer above his competition. This method, used more commonly by the service wholesalers in the grocery trade than elsewhere, became a basic part of most wholesaler-controlled chains and has been copied to a varying degree by the retailer-owned groups. National groups, such as I. G. A., Red and White, Clover Farms, and the National Retailer-owned Grocers are gradually developing their own brands as the central feature of their organization. To the extent that they can do this successfully, they will have a common rallying point for their retail members. These private brands which can be advertised nationally may become in time just as strongly intrenched in the minds of the consumers as many manufacturers' brands.

If the present wave of price legislation continues and is approved by the courts, cooperative chains which have a wide line of private labels are in a strong position because they control the brands and, therefore, the price at which they are sold to the ultimate consumer. In fact, it seems entirely possible that this legislation, which is being accepted by many manufacturers who have spent years and large sums of money in building up the reputation for their brands, may encourage distributors' brands at the expense of manufacturers.

Strength of Cooperative Wholesale Distribution

Many claims have been made for the various types of cooperative wholesale distribution, which may be true in individual cases but which have never been proved entirely sound. Although it is difficult to generalize when so many different

kinds of organizations are involved, it is reasonable to say that these claims can be broken down into four broad classes.

New Channel of Distribution.—All types of distributive cooperation definitely break with established methods. This break occurs when a group of retailers decides to organize a retailer-owned cooperative or when a wholesaler decides to convert his salesmen into supervisors.

Retailers and wholesalers, pressed with competition on every side, have been told that in cooperative efforts they will find their salvation. The old adage that a new broom sweeps clean holds here. Stirred emotionally, many accept new ideas formerly rejected. Filled with great expectations, they ignore difficulties which formerly seemed insurmountable. If the emotional reaction is accompanied or immediately followed by an understanding of the basic opportunities of the new method of operation, much of the early gain can be consolidated both in the wholesale and retail ends of the business. Too often, however, after the first excitement is over, cooperating retailers still find themselves competitors, or their distrust of the sponsoring wholesale house returns, interest recedes, and the organization gradually falls to pieces under the pressure of outside competition.

Large-Scale Buying.—In the second place, it is claimed that the strength of distributive cooperation lies in its opportunity to buy in large quantities at low prices. As a matter of fact, this advantage is probably given more commonly than any other. What the members of retailer-owned chains mean, however, is that their cooperative wholesale house can buy at lower prices direct from manufacturers than they themselves could from the local service wholesaler. They do not normally mean that the wholesale manager can purchase to better advantage than can the full-line wholesaler. The only economy of cooperative buying under these circumstances presents itself when a number of cooperative organizations combine their purchasing power, as do the members of the National Retailer-owned Grocers.

Furthermore, wholesaler-sponsored houses offer no economy in buying except as they, too, combine to buy in quantities larger than those commonly required by one wholesaler. Both types of cooperative distributive systems are on a par; the buying power of N. R. O. G. roughly matches that of I. G. A. and possibly that of the Great Atlantic and Pacific Tea Company, two of the largest buyers in the trade, in so far as prices, discounts, and allowances are concerned. With the Robinson-Patman Act in effect, however, the advantages of these organizations may be reduced to a point that is more in line with the smaller groups or affiliated organizations.

Buying groups in the shopping trades have the greatest opportunities for price reductions offered for large-scale buying. A particular dress, for example, which is selected by a group at a buyers' meeting, is sold to them at a fraction of the manufacturer's usual sales price. Other factors, however, tend to offset some and occasionally all of such savings.

Large-Scale Selling.—Another contention is that distributive cooperatives have the advantage of large-scale selling. The department stores and mail order houses first developed this idea. Corporate chain systems, however, have approached the problem from a different angle and through private brands, common store fronts, and newspaper and related types of retail advertising have developed a program of merchandising unsurpassed by any of the older classes of distributors.

Both types of cooperative chains can take advantage of mass selling by concentrating purchases, agreeing in advance upon weekly specials, or upon those items which will be advertised in the newspapers, over the local radio station, on the handbills, in the store windows, or store signs. Retailer-owned cooperatives, the older of the two types, have been very slow to take advantage of this opportunity. Even today, the stores of many members of most organizations of this type cannot be identified as cooperatives. The aim of a service wholesaler in sponsoring a group, however, is primarily to take advantage of large-scale selling. He wishes to assure himself of outlets for his goods. He is in a position to see the benefits accruing from mass selling

by retailers; he often has a private brand to push, is willing to offer weekly specials, to help plan advertising, and to give other merchandising helps.

Coordination of Buying and Selling Effort.—The great strength of distributive cooperation probably lies in a genuine coordination of the selling activities of the wholesale agent with the buying operations of the retail organization. Every time merchandise is assembled for sale, a dam temporarily stopping the even flow of goods is erected. This dam remains an obstruction to the degree that poor or inadequate business judgment is exercised. If all of the producers and distributors knew exactly what the consumer wanted, when he wanted it, and in what quantities and price, the free flow of goods would move on, irrespective of the number of buyers and sellers along the way. Since such is not the case and since business judgment must be exercised at each point where buyer and seller meet, greater coordination of wholesaling and retailing reduces to some extent distribution costs and business risks.

If the manager of a retailer cooperative or the sponsoring wholesaler knows he can depend upon the purchases of a selected group of retail members, and if he has worked with them long enough to appreciate the approximate volume of goods which they would sell in a given period of time, he can buy to better advantage, keep down his stocks, sell at a very low cost, and pass on all or some of these savings. In the last analysis, the success or failure of most cooperative chains of all types depends to a large extent upon the common understanding and mutual confidence shared by those cooperating.

Weaknesses of Cooperative Wholesale Distribution

As with all new devices, a growing experience with cooperative chains has brought with it a clearer understanding of their weak points. Of these, the most important relate to inefficient management, ineffective cooperation and a conflict of interests.

Inefficient Management.—A successful business organization of any type is largely the result of one or more men who

that in numbers there is strength and that in cooperation common good will result. Retailers joining a wholesaler-sponsored chain, however, are probably more calculating in that they put up little or no money. Further, their group is not made up of equals but is dominated by a wholesaler, who, at the outset at least, has the advantage of writing the program and setting the terms.

Practically the only purpose in joining the retailer-owned, and, in almost every case, the only reason for joining the wholesaler-sponsored chain, is to be able to buy and sell at prices which will bring in a larger dollar net profit at the end of the year. If, in the meantime, some other method of distribution or merchandising is presented in such a manner that the retailer feels assured that it will prove more profitable than cooperation, cooperation is abandoned.

Varied Needs.—A third weakness of cooperative chains may be listed as varied needs. As a group of cooperators continue working together, they usually discover that they not only have different ideas about their cooperative operation, but that they are not all in a position to operate in a like manner with equal success. Each retailer serves ultimate consumers who have their own views about what they are willing to pay for goods, how, when, and where. Consumers in one area expect and secure from competing retailers, 30-day credit, unlimited delivery service, manufacturers' high-grade brands, clerk service, wide selections, unquestioned returns, convenient hours, and so on. In an adjacent neighborhood, the consumers may have an entirely different conception of their needs. Such a variation among customers makes cooperation difficult even in a well-managed cooperative where all of the members have a genuine desire to work together. The obvious solution is to include only those members who serve similar classes of customers and to eliminate those who are exceptions. In medium and small-sized cities, however, there are not sufficient retailers serving the same class of people to establish a successful cooperative in most lines of trade.

Appraisal of Cooperative Wholesale Distribution

Cooperative chains have been in operation long enough to permit an appraisal of their objectives and the extent to which they have met them, although wholesaler-sponsored organizations are still relatively new. Cooperative chains are a defense mechanism, set up in practically every case for self-preservation. In no sense is cooperative distribution a pioneering movement evolved for the purpose of lowering the competitive market price through more efficient distribution.

Attainment of Purpose.—Practically the only purpose of cooperative chains is to place the independent retailer and wholesaler on a competitive basis with the department store, mail order house, or corporate chain, taking into consideration price, quality, style, and service. Judging from the Federal Trade Commission figures, the latest of which are for 1930, as well from other data,[9] it would appear that, on the average, cooperative chains do not sell as cheaply as do corporate chains, although the figures are not exact and current. Neither type of cooperative chain has yet attained its maximum efficiency. Retailer-owned cooperatives operate their wholesale houses with a minimum of service and at low costs while wholesaler-sponsored organizations are doing the better job of retail merchandising.

Service to Manufacturers.—Cooperative chains offer manufacturers a fundamental service. The goal of a manufacturer of consumers' goods is to reach all of the consumers at as low a price and with as large a net profit as possible. The moment a new channel of distribution through large-scale distributors permits sale to the ultimate consumer at lower prices than the other more orthodox channel, the manufacturer is faced with the dilemma of virtually losing part of his potential market to the new competition or of securing distribution through it. To the extent to which the cooperative chain, however, spreads to all the distributive trades and to the extent that it competes on

[9] Prices and Margins of Chain and Independent Distributors—Grocery, Washington, D. C., Memphis, Detroit, and Cincinnati. Federal Trade Commission, Washington, D. C., all four reports published in 1933.

a par with the other mass distributing systems, to that extent the average manufacturer will be best able to cover his markets irrespective of the difference in ownership and operation.

Service to Retailers.—The impact of the cooperative chain upon the distribution system in the grocery and to a lesser extent in the drug, hardware, and shopping goods trades, has been very definite. Cooperative distribution has been a rallying point for the independent merchant. In fact, this type of organization has served somewhat the same purpose for the merchant as the union has served for the laboring man. In this instance, the cooperative has tended to place the retailer on a par with his large-scale competitor.

Independent dealers can be roughly grouped into three classes, not all of whom can profit from membership in a cooperative chain. These groups are: (1) large retailers who in their one store exercise purchasing power sufficient to secure the advantages of large size. Such merchants are found in all lines of trade. (2) Those merchants who may be equally canny but who are just starting in with limited facilities or who are located in markets with limited purchasing power. A large proportion of the merchants in the United States fall in this group. (3) Finally, the largest class of all independents, the small operators, many of whom at best will be in business only a short period of time.

The first group does not need membership in a cooperative chain. The last cannot profit from one, for its members would doom a cooperative group to failure if they dominated its administration or membership list. Independents in the second group can profit most from membership in a cooperative chain, depending primarily upon their mental and psychological facilities and upon their ability to cooperate with the management and other members.

Social Significance.—From the social point of view, it is obvious that production and distribution are carried on for the benefit of the ultimate consumer. Cooperative chains have no economic value if they do not serve society. A test that can be

applied is: What service do they offer, if any, first over a short period of time, and second over a long period?

There is sufficient evidence to indicate that the ultimate consumer can purchase merchandise at lower prices in cooperative chains than in unaffiliated independent stores, when both quality and service [10] are considered. Lower prices result from savings in expense incurred after the merchandise is sold to the wholesale unit and up to the time it is sold to the final customer, delivered, and paid for. Because of competition these savings are divided between the distributors involved and the consumer. In other words, the same force which produces the cooperative chain gives to the ultimate consumer some of the economic savings effected.

The cooperative chain in the long run, however, may perform a more important service to the consumer. If manufactured goods reached the stage of consumption entirely through a single channel of distribution, methods would become stereotyped and tradition would gradually take its toll. Considering the condition of the orthodox channel of selling only a few years ago, the dominating method of the future, at least in the grocery trade, might have been mass selling by large corporate organizations, directed from headquarters and operated mechanically, had it not been for cooperative chains. Various channels of distribution ought to be developed to counterbalance each other, to the final advantage of the ultimate consumer.

Independent wholesale and retail merchants, on the average, are more efficient today than ever before. Mass distributors have set them many excellent examples. To some extent employees of these large organizations have become independents themselves, bringing with them thorough training and supervised experience. The cooperative chain is one device open to these retailers, but it cannot be blindly substituted for business judgment and other essential qualities. Within the limits set, cooperative chains are economically sound and socially desirable. The problem is to see their limitations and to place greater emphasis upon management.

[10] *Ibid.*

CHAPTER 29

WHOLESALING AND THE GOVERNMENT

The foregoing discussion contained in Chapters 27 and 28 has dealt with the major problems facing the wholesaling industry and with some of the efforts which the industry itself is making to work out a solution. In this concluding chapter of the book an examination is made of the rôle of government in shaping the wholesaling structure of the United States.

Antitrust Legislation and Wholesaling

Business Turns to Government.—Rugged individualism and free-for-all competition characterized the business structure of the United States as long as the frontier remained. Little demand for government regulation of commerce was evident during the great era of the conquest of the West. Business, expanding steadily under the impetus of the Industrial Revolution, was ever alert for new devices and mechanisms of progress. Energetic and aggressive leaders of industry found in the corporate form of organization the means for accumulating the great blocks of capital required to utilize to the full the advantages of large-scale operations. Combinations, pools, and trusts were developed to concentrate control in the hands of relatively few capable, but often ruthless, captains of industry. The small, independent operator became more and more disturbed as these giant competitors waged unequal warfare against him.[1] Competition failing to safeguard the competitors, business turned to government, as it never had before.

[1] This development is well summarized in the following statement:

"Efforts to obtain monopolistic control of the market have existed to a greater or less extent in almost all periods of civilization. . . . The recent development of large combinations and monopolies in the United States, as well as in various foreign countries, has been especially striking, because it followed an era in which competition had been strongly developed. This pronounced competitive era was apparently the result of several historical circumstances, among which may be mentioned the development of the factory system of

Following the pattern of Great Britain, the *common law* of the United States had favored competition and opposed monopoly. Various decisions under the common law indicated the intent of the courts to prevent the development of trusts, holding companies, and other devices which were held to be in restraint of trade or unfairly competitive. That the common law or the decisions under it were inadequate to protect the interests of the people is evidenced by the trend toward *statutory law* intended to restrict non-competitive practices. A number of state legislatures passed such laws before the first Federal enactment, the Sherman Antitrust Act, became effective on July 2, 1890.[2]

Early decisions under the Sherman Antitrust Law, such as the Knight case, which was an unsuccessful attempt to break up the sugar trust, cast some doubts upon the value of the Sherman Act. Other decisions, notably the Trans-Missouri Freight Association, the Joint Traffic Association, and the Addyston Pipe & Steel Company cases, were more encouraging. Later victories by the Government against the oil and tobacco trusts strengthened the belief that monopolies might be prevented in the United States.[3]

The accelerated progress of business after turning the corner of the twentieth century led to a growing demand on the part of the people of the United States to provide additional legislation to curb big business from unfair and monopolistic practices. This agitation led to the establishment of the Federal Trade Commission in 1914, and the almost simultaneous pas-

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production, the improvement of means of transportation and communication, the development of more liberal laws of commercial intercourse between nations, and the influence of the economic doctrine of free trade and free industry."

Report of the Commissioner of Corporations on "Trust Laws and Unfair Competition," Department of Commerce, Bureau of Corporations, p. 1, Washington, D. C., Government Printing Office, 1916.

[2] "Several states during the later eighties passed so-called antitrust statutes prohibiting trusts and other combinations in restraint of trade or tending to monopoly. Among the states which passed such laws prior to the Sherman Antitrust Act were the following: Maine, 1889; Michigan, 1889; Tennessee, 1889; Texas, 1889; Iowa, May 6, 1890; Kentucky, May 20, 1890. . . .

"In this connection it may be noted that several states prior to 1890 had constitutional provisions declaring monopolies or combinations in restraint of trade unlawful. Among them may be noted Arkansas, Georgia, Kentucky, Tennessee, and Texas." *Ibid.*, p. 9.

[3] See United States *v.* Trans-Missouri Freight Association, 166 U. S. 290; Addyston Pipe & Steel Company *v.* United States, 175 U. S. 211; United States *v.* E. C. Knight, 156 U. S. 1; United States *v.* Joint-Traffic Association *et al.*, 171 U. S. 505; United States *v.* American Tobacco Co., 221 U. S. 106; Standard Oil Company of New Jersey *et al.* *v.* United States, 221 U. S. 1.

sage of the Clayton Act, both of which expanded still further the authority of the Federal Government over unfair methods of competition, trusts, and other business practices and devices held to be in restraint of trade.

Importance to Wholesaling.—The development of mass distribution with the many serious implications which that movement had for him quickened the interest of the wholesaler in anti-trust legislation. When producers began to circumvent the wholesaler by various forms of direct distribution, particularly by encouraging the growth of large-scale retail buying agencies, it became increasingly difficult for the wholesaler to maintain his position. The extension of numerous varieties of price concessions to large-scale buyers further complicated his situation. The wholesaler, who had himself been subjected to accusation and prosecution for violation of the Sherman Act but a decade or so earlier, now found the shoe on the other foot. He very naturally and with complete inconsistency protested vigorously against the new competition of the twentieth century.

One case in which wholesalers were directly interested was that of the meat packing industry. The large meat packers of the country such as Armour & Company, Swift & Company, Wilson & Company, Inc., Morris & Company, and Cudahy Packing Company, developed a method of direct distribution of meat products to retailers through the use of branch houses and peddler cars which enabled them to serve more effectively than by use of wholesalers all of the important retail meat dealers. Once this system of distribution had been established, the packers expanded their lines of products to include poultry and game, dairy products, canned, packaged and bulk grocery products, and soda fountain supplies, all of which could be transported without much added expense in the refrigerator cars.[4] The wholesale grocers of the country protested this practice to the Federal Trade Commission.

As a result of the Federal Trade Commission's meat packing industry inquiry and recommendations, the Department of

[4] Report of the Federal Trade Commission on the Meat Packing Industry, Pt. IV, pp. 16-18, 262, June 30, 1919, Washington, D. C., U. S. Government Printing Office, 1920.

Justice in 1919 took action which eventuated in a consent decree requiring the packers:

1. To dispose of their holdings in public stockyards.
2. To dispose of their interest in stockyard railroads and terminals.
3. To dispose of their interest in market newspapers.
4. To dispose of their interest in public cold storage warehouses, except when necessary for their own meat products.
5. To disassociate themselves from the retail meat business.
6. To discontinue using their facilities in any manner for the purchase, sale, handling, transporting, distributing, or otherwise dealing in certain commodities commonly referred to as unrelated to the meat packing industry, which commodities were enumerated in said decree and are principally wholesale grocery lines.
7. To disassociate themselves from manufacturing, selling, jobbing, distributing, or otherwise dealing in such unrelated commodities, and from ownership of any capital stock in corporations engaged in manufacturing, selling, distributing, or otherwise dealing in such unrelated commodities.
8. Individual defendants are enjoined from owning, severally or collectively, voting stock aggregating 50% or more in any corporation, or a half interest or more in any firm or association engaged in manufacturing, jobbing, selling, transporting, distributing, or otherwise dealing in certain unrelated commodities enumerated in said decree. For the fulfillment of these changes the maximum limit of time permitted by the decree was two years.[5]

After the decree had been agreed to, there is evidence that the packers, with few exceptions, were slow in readjusting their businesses to the provisions. Indeed, efforts were made from time to time to have the decree modified. In 1921, at the in-

[5] Packers' Consent Decree, Senate Document No. 219, 68th Congress, 2nd Session, p. 2-3. Washington, D. C., Government Printing Office, 1925.

stance of the California Cooperative Canneries, request was made to modify the decree to permit the continuance of the handling of unrelated lines. This request was vigorously opposed by the wholesale grocers, especially by the National Wholesale Grocers' Association and the Southern Wholesale Grocers' Association. The California Cooperative Canneries were, nevertheless, permitted by the District of Columbia court to intervene in 1924 for the purpose of having the decree vacated with the result that on May 1, 1925, the decree was suspended.

The original position of the packers on this case had been that they themselves would not request a modification of the decree. Later, however, there was a complete volte-face and "the two largest packers, Armour & Company and Swift & Company, came out squarely against its validity." On November 5, 1924, they entered motions to have the decree set aside.[6] This effort to annul the consent decree was overruled and the decree held valid by the United States Supreme Court.[7] The same court again affirmed the validity of the decree in the case of the United States *v.* California Cooperative Canneries and disallowed the intervention of the Canneries and ordered the removal of all obstacles to the enforcement of the decree.[8]

One of the contentions of interest to wholesalers which was urged was that the decree was invalid because it actually lessened competition in the wholesale grocery business by relieving the wholesale grocers from the competition of packers. This was an implication which was emphatically denied by the wholesale grocers. A later phase of this case is also of particular moment to students of wholesale distribution. Armour

[6] The following grounds were submitted:

"1. The consent decree is void, because the Supreme Court of the District of Columbia was without jurisdiction to enter the same for the following reasons:

(a) There were no adjudicated facts before the court upon which the court could act.

(b) The decree itself was beyond the jurisdictional power of the court to enter in any event.

(c) The decree violates the fifth amendment to the Constitution of the United States.

(d) There was no case or controversy before the court within the meaning of the Constitution and laws of the United States.

2. The decree is void because it is violative of the antitrust laws themselves, and neither the consent of the Attorney General nor the consent of the defendants could validate it.

3. The Attorney General was without power or authority to consent to the decree in behalf of the United States." *Ibid.*, pp. 15-16.

[7] 276 U. S. 311.

[8] 275 U. S. 553.

& Company and Swift & Company opened the whole discussion again by filing petitions on August 10, 1929, in the District of Columbia court for modifications of the Supreme Court injunction, and again on April 2, 1930, which led to a modification by the Supreme Court of the District of Columbia on January 31, 1931. The novel argument was presented that changing economic factors had greatly altered conditions in the meat packing industry since the original decree had been accepted. It was urged, in particular, that the growth of large corporate chains constituted a new competitive hazard to the packers. Most of these chains were engaged in the distribution of unrelated lines, including meats, dairy products, fresh fruits and vegetables, and groceries; some chains had also established their own meat packing plants. Thus, it was claimed, the chains were actually conducting business on a pattern very similar to that from which the packers had been excluded by the consent decree with resulting stiff competition for the packers. The latter urged that this new development in integrated distribution was a cogent reason for a modification of the decree. The argument, however, could be applied with equal force in another direction. Granting that the original purpose of the consent decree had been to prevent a monopolistic tendency from developing in the food trades, it might appear that the evidence of chain store expansion pointed rather to the need for restrictive action by the Government against the chains similar to that which led to the Packers' Consent Decree, than it did to the removal of restraints upon the packers. From the wholesalers' standpoint there is certainly little choice between the two systems of distribution. Both types of integration are restrictive of his field of operations. Two wholesale grocer associations objected to the modification, and the Government appealed against the modifying order to the Supreme Court of the United States on March 30, 1931, with the result that the decree of the Supreme Court of the District of Columbia modifying the consent decree was reversed and the petitions dismissed on May 2, 1932.[9]

[9] 286 U. S. 106.

Retreat from Competition

Regulated Monopoly.—The past policy of the Federal Government toward competition has thus been consistent with the doctrine of laissez-faire. It has not only promulgated and enforced antitrust legislation but has also set up regulatory agencies to control industries which are essentially monopolistic such as railroads and public utilities. The most glaring inconsistency has been the drastic tariff laws which have seriously hampered the competitive principle from functioning in international trade, and which are an outgrowth of the fallacious philosophy of isolation and national self-containment. Another inconsistency, also in the field of foreign trade legislation, has been the waiving of antitrust provisions of the Clayton Act by the Webb-Pomerene Act passed in 1918, which permitted the formation of export trade combinations. This law, which has been little used, still provides opportunities for producers and wholesalers in the export field to organize export corporations for the more effective sale abroad of American products. Even this law, however, paid lip service to the competitive doctrine since the pretext for the act was the alleged necessity to permit Americans to compete more effectively in world markets with the gigantic cartels of Europe.

A retreat from unrestricted competition as the basis of American governmental policy has thus become apparent in recent years. A notable example in the field of agricultural legislation was the Agricultural Marketing Act of 1929, which set up the Federal Farm Board and authorized it to encourage agricultural cooperative marketing associations. This form of producers' cooperation was by no means new in the United States. The law merely served to stimulate increased interest in cooperation by farmers for the purpose of selling their produce. Cooperation by producers, it should be noted, is essentially monopolistic or quasi-monopolistic in principle since it has the effect of reducing the number of sellers and, hence, of reducing competition among sellers. While it is true that many cooperative marketing associations have done little towards actually restricting the supply of their produce, there are

notable exceptions. Some of the latter have depended for success, at least in their initial stages, upon restricting supply. In their later stages, they may, if successful, stimulate increased production but only in response to increased demand, which they have built up by sales promotional activity. By their endeavors to keep output from outstripping demand, cooperatives may achieve the objective of maintaining prices or of increasing them, a typically monopolistic practice. It is difficult, indeed, to see how cooperative marketing associations can achieve any great measure of success in securing higher prices for their products without first securing and maintaining control over a substantial volume of the output of their commodities. They may effect some economies in marketing and possibly, by their competition, succeed in reducing excessive profit margins of assemblers, country buyers, and other wholesale middlemen in the agricultural field. At best it would seem that any higher prices so secured must be quite small and that further increases can only be achieved by the production control technique which has characterized some of the better known cooperatives.[10]

The Agricultural Adjustment Administration and Wholesaling.—In 1933 the Government replaced the Agricultural Marketing Act with a new measure known as the Agricultural Adjustment Administration, which has had far-reaching consequences for wholesaling. While the Act did not specifically encourage cooperative marketing, as did its predecessor, it has been the policy of the Administration to safeguard the interests of agricultural cooperatives and to aid them in various ways.

Of more direct moment to wholesaling, however, the Agricultural Adjustment Act provided for the establishment of marketing agreements, already discussed in Chapter 7, and for the setting up of codes of fair competition. A dozen or

[10] The student is referred to "Cooperative Marketing," Senate Document No. 95, 70th Congress, 1st Session, a report by the Federal Trade Commission, May, 1928, for a most exhaustive treatment of the problem of cooperative marketing. See also E. G. Nourse, "The Legal Status of Agricultural Cooperation," The Institute of Economics, New York, The Macmillan Co., 1927, and E. G. Nourse and J. G. Knapp, "The Cooperative Marketing of Livestock," Washington, D. C., The Brookings Institution, 1931.

more codes were approved before the Agricultural Adjustment Act was held unconstitutional by the Supreme Court on January 6, 1936. Among these were several wholesale codes including the *auction and looseleaf tobacco warehouses, country grain elevators,* the *import date packing industry,* and the *wholesale fresh fruit and vegetable distributors.* These codes were joint Agricultural Adjustment Administration and National Industrial Recovery Administration codes and included wage, hour and other labor provisions.

As a basis for formulating the codes, members of the interested industries were invited to present their points of view at public hearings held by the Government. These viewpoints were incorporated in the codes in so far as they did not violate the provisions of the Act. Nearly all of the Agricultural Adjustment Administration codes made exemptions in the interests of marketing agreements and no code provision was held to be valid if in conflict with such agreements.[11] The activities of cooperative marketing associations were also exempted from certain code provisions which might interfere with their normal functioning as cooperatives. Unfair trade practices were specified and prohibited, the specifications varying with the industries. The codes were designed to set up self-government machinery in order to regulate the industries in such a way as to eliminate unfair methods of doing business. Price cutting was generally taboo, as was the allowance of secret or hidden discounts or rebates. Provisions were included for *code authorities* in the various industries to administer the codes, and for members of the industries to supply factual information as a basis for this work.

National Recovery Administration and Wholesaling.— The National Industrial Recovery Act, which became law June 16, 1933, aroused a widespread interest among wholesalers. They saw possibilities in the Act for solving certain pressing trade problems. They hoped to secure a recognition of the wholesaler's margin; they sought to prevent price cutting, selling below cost, misleading and malicious advertising, and

[11] See Chapter 7 for a discussion of Marketing Agreements.

many other alleged unfair business practices. The N. R. A. was no sooner in operation than wholesalers descended on Washington in the hope of securing codes of fair competition which would accomplish their purpose. Numerous hearings were held at which the points of view of the Government and of interested business groups were expressed freely.[12]

The National Recovery Administration sought to establish a general or basic code for the wholesale distributive trades. Wage and hour provisions were the primary aim of the Government, since the major objective of the entire National Recovery Administration program was reemployment and stimulation of purchasing power as a means to business recuperation. There was a wide divergence of opinion among the wholesale trade representatives, first, on the question of whether a general code for all wholesale trade or a separate code for each trade was appropriate, and second, as to what the codes should contain. Several of the well-known jobbing trades, notably dry goods and hardware wholesalers, were in sympathy with the Administration's plans for a general code. Drug and grocery wholesalers, however, opposed the idea. Exception to this proposal was also taken during the early hearings by some of the specialty trades and by groups of wholesalers which were closely integrated with manufacturers or retailers. These groups preferred either separate codes or vertical industry codes (i.e., a single code covering manufacturing, wholesaling and retailing in each trade), depending upon the particular problems of the group. It was pointed out in the hearings, however, that neither the specialty nor the integrated wholesaler groups could afford to ignore or remain outside of a general wholesale code structure because of the existence of competition in the same lines of merchandise by general merchandise wholesalers. As a result, certain groups of wholesalers, originally antagonistic, shifted their position to one favorable to a general code. In the end a compromise arrangement prevailed consisting of a general or basic wholesale code supplemented by individual industry codes for such groups of wholesalers as wanted them.

[12] Hearings on National Recovery Administration wholesale codes were held in Washington, D. C., on Oct. 3, 4, 7, 21, 26, Nov. 11, 13, 1933, and Jan. 9, 1934.

The content of the codes was subject to long debate at the hearings. It was clear from the outset that the wholesalers were determined to use the National Recovery Administration as a device for ridding their closets of many an old skeleton. The Government's objective of shorter hours and higher wages was brushed aside as inconsequential or at best a necessary evil for which they insisted upon a quid pro quo. One representative stated wholesaler's position in unvarnished terms:

> Unless you give us price control, or in the better language of Mr. Whiteside, loss limitation, the rest means practically nothing.[13]

A second representative of industry stated that,

> There are just two features in a code, in my way of thinking, one is the hours and wages and the other is the *price control that you can put on to the extent of making a legitimate profit*.[14]

The price control which was desired was control over manufacturers who did not recognize the wholesaler's margins. The wholesalers sought to supplement the usual price basis which recognized customer differentials and quantity differentials with a *functional* classification which would entitle them to exclusive discounts because and only because they were wholesalers, and which would be allowed to them regardless of the quantities purchased. Closely related to this demand was the hope of preventing certain wholesalers from selling below cost, by which was meant preferably cost of merchandise plus cost of doing business, but at least cost of merchandise to the seller. This demand was aimed at ignorant or unscrupulous price cutters whose activity led to disruption of the price structure and loss of profits on chronic loss-leader items.

The basic wholesale code which was finally approved by the President on January 12, 1934, contained the hour, wage and labor provisions sought by the Administration but considerably modified by the wholesalers and, in addition, a substantial list of trade practice provisions. Article VII of the code contained 10 trade practice sections, including provisions against false marking or branding, misrepresentation, false or mislead-

[13] National Industrial Recovery Administration Hearings on Proposals for a Code of Wholesale Industries, p. 72, Oct. 3, 1933.

[14] *Ibid.*, p. 68. Italics by the authors.

ing advertising, commercial bribery, interference with contractual relations, secret rebates, prizes, premiums or gifts, defamation, threats of litigation, espionage of competitors, brand and trade mark piracy. Differentials and other unfair trade practices were covered in Article VIII of the Code. Of these provisions, that covering differentials was most important to the wholesalers, who sought by it to protect their margins from discrimination by manufacturers who sold at the same or better terms to large-scale retailers.[15]

The supplemental codes for the various branches of the wholesale trade went even further in attempting to control prices "to the extent of making a legitimate profit." They included, in a number of trades, provisions prohibiting sales below cost. Trade practice provisions also went beyond the scope of the general code (see Figure 34), in an effort to meet the special demands of particular trades.

An analysis of the code hearings as well as of the codes themselves indicates a wide division of opinion among wholesalers about their major problems and the exact extent and direction of appropriate government assistance. Ignorance of the broad field of wholesaling and of its inextricable integration with other parts of the business structure is manifest in the many impractical provisions which found their way into the codes. The code structure would undoubtedly have fallen by its own weight had not the Schechter Decision by the Supreme Court in May, 1935 put a summary end to the entire National Industrial Recovery Act.

State Legislation.—Following the passage of the National Industrial Recovery Act, and possibly in anticipation of the final decision of the Supreme Court on its constitutionality, a number of states began working on little N. R. A.'s and by the end of July, 1936, 15 states had enacted so-called fair trade legislation, while related bills were pending in a number of other state legislatures.[16] On the other hand, some 16 similar bills had been defeated in as many states.

[15] "Code of Fair Competition for the Wholesaling or Distributing Trade," pp. 79, 80, National Recovery Administration, Washington, D. C., U. S. Government Printing Office, 1934.

[16] These fifteen states are Arizona, California Illinois, Iowa, Louisiana, Maryland, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Virginia, Washington, and Wisconsin.

The state of California was a pioneer in this renaissance of state legislation designed to supplement or supplant Federal control of trade. As early as 1931 a law known as the Fair Trade Act was approved by the California state legislature designed "to protect trade-mark owners, distributors, and the public against injurious and uneconomic practices in the distribution of articles of standard quality under a distinguishable trade mark, brand or name." This law, which is essentially a resale price maintenance act, stipulates that contracts containing provisons "that the buyer will not resell (certain commodities coming under the law) except at the price stipulated by the vendor" are not illegal.[17] This law was later amended and supplemented by additional legislation covering so-called unfair trade practices, banning loss leaders and making it illegal to sell below cost, defined "as including the cost of raw materials, labor and all necessary overhead expenses of the producer; and as applied to distribution 'cost' shall mean the cost of the article or product to the distributor and vendor plus the cost of doing business by said distributor and vendor."[18] The unfair trade practice act of 1935 was held unconstitutional by the Superior Court in Los Angeles in February, 1936, a decision which was reversed by the Calfornia Supreme Court which declared the act to be constitutional. On December 7, 1936, the Supreme Court of the United States handed down an epochal decision, which declared the California Fair Trade Law, as well as that of Illinois, entirely constitutional. This decision will no doubt strengthen existing legislation and stimulate similar laws in other states.[19] A further stimulus may come from additional Federal legislation. A national "Fair Trade Enabling Act" (the so-called Tydings Bill) which died in the second session of the 74th Congress (1936) will undoubtedly be urged at a subsequent session of Congress. Should such a measure become law, it would facilitate com-

[17] Chapter 278, Statutes of California, 1931.

[18] See Chapters 260 and 504, Statutes of California, 1933, and Chapter 477, 1935. The 1935 amendment substituted for the words " 'cost' shall mean the cost of the article or product to the distributor" this: "invoice or replacement cost, whichever is lower."

[19] Thus a manufacturer now has the legal right under state law (where such law exists) to sign price contracts with dealers and to insist that those prices be maintained within the state even by those dealers who have failed to sign such contract. The last provision does not apply to the law in New York, New Jersey, or Wisconsin.

WHOLESALE CODE PROVISIONS	Wholesale or Distributing Trade (General)	Food and Grocery	Wall paper	Machine, Tool and Equipment	Construction Machinery	Upholstery Fabrics	Industrial Supplies	Furriers Supplies	Automobile	Confectionery	Stationery	Leather	Dry Goods	Millinery	Lobster	Tobacco	Paper	Radio	Coal	Wool	Fu-
	WHOLESALE CODES BY KINDS OF BUSINESS																				
ADVERTISING: Inaccurate: unfair	●	●		●					●	●						●	●	●	●		
Claiming to undersell competitor; unfair																	●				
Cooperative; controlled																		●			
Free goods, services, deals, premiums; limited				●			●		●	●	●							●			
Furnishing "show-pieces" for window display, return privilege; prohibited																					●
Sample distribution; controlled			●			●				●											●
DISCOUNTS: Cash; controlled or specified		●	●			●			●	●	●	●		●				●			●
Unearned; prohibited	●	●		●	●	●	●		●	●						●	●		●		
Trade discounts: Quantity; controlled											●							●			
Fictitious prices allowing greater discounts; prohibited								●										●			
Minimum discounts determined by Code Authority																●					
Partial shipments at quantity prices; prohibited					●				●		●										
Rent allowance on purchase price; prohibited					●																
Service payments, unearned; limited		●								●									●		
Schedule of discounts; specified																		●			
Special on mail orders; prohibited											●										
Splitting discounts and commissions; unfair																			●		
Wholesale discounts to service companies; controlled																		●			
PRICE PROVISIONS: Down payment percent; specified					●																
Lump sum pricing; prohibited				●	●		●		●												
Market change guaranteed against; prohibited					●																
Open price (listed only)	●			●	●	●		●		●					●		●				
Price increase; limited		●									●										
Price differentials may be established according to service rendered	●	●																	●		
Posting; mandatory or permissive						●	●			●	●					●		●			
Price fixing based on, open price; unfair											●										
Price based on (1) uniform cost accounting system				●			●	●				●			●		●	●			
(2) individual cost							●														
(3) F.O.B factory price		●	●	●											●			●			

Quoting prices without transportation (price basis); unfair				●	●						●				○						
Selling below cost; controlled	●	●	●	●	●			●	●	●	●	●			●	●	●	●	●		
Exceptions: (a) to meet competitors' price		●	●					●		●	●				●	●					
(b) to dispose of perishable, damaged, discontinued goods		●	●	●	●			●	●	●	●	●			●	●	●	●			
(c) to equalize transportation costs			●						●												
Emergency periods determined by Code Authority										●						●					
Resale price maintenance; mandatory				●					●												
Selling below price listed with Code Authority; unfair					●	●	●	●		●	●	●		●			●		●		
Selling below replacement cost; unfair																	●				
TRADE-MARKED MERCHANDISE REGULATIONS: Marking or branding to deceive; prohibited				●					●	●						●	●				
Sale below regular price of articles identical to trade-marked ones; unfair									●												
Sale of trade-marked articles below cost; unfair									●												
GENERAL PROVISIONS: Agreeing to manifestly impossible terms; unfair							●														
Bribing or enticing competitor's employees; unfair	●	●		●	●				●	●						●	●		●		
Coercion (compulsory joint purchases); unfair	●	●							●	●						●					
Commercial bribery, secret rebates, refunds, allowances, services; prohibited	●	●		●	●	●	●		●	●	●					●	●	●	●		
Consignment shipping; limited						●	●		●	●				●	●		●	●			●
Contracts: (a) breach of, to procure or influence; unfair	●			●	●		●		●	●						●	●		●		
(b) cancellation; restricted					●		●														
(c) only one party bound; unfair																	●				
Credit restrictions						●		●	●		●				●	●					
Design piracy; prohibited						●															
Dealer service to consumer; limited																		●			
Deceiving customers; unfair									●										●		
Discrimination between customers of same class; unfair		●			●	●	●		●	●								●	●		
Disparagement of competitors; prohibited	●	●		●	●		●		●	●						●	●		●		
Exclusive territories granted by manufacturer to wholesalers; protected										●						●					
Failure to record every transaction; unfair								●				●				●					
False billing (inaccurate invoices); unfair	●						●		●	●						●	●		●		●
Freight, prepayment, etc.; restricted		●	●	●	●										●				●		
Future orders subject to cancellation; limited					●		●														
Guaranteeing more than manufacturer; unfair					●																
Labelling, inaccurate; unfair	●	●							●	●						●	●				
Maintaining stock with resident buyer unless exclusive employes; unfair																					●

WHOLESALE CODE PROVISIONS	Wholesale or Distributing Trade (General)	Food and Grocery	Wall paper	Machine, Tool and Equipment	Construction Machinery	Upholstery Fabrics	Industrial Supplies	Furriers Supplies	Automobile	Confectionery	Stationery	Leather	Dry Goods	Millinery	Lobster	Tobacco	Paper	Radio	Coal	Wool	Fur
	WHOLESALE CODES BY KINDS OF BUSINESS																				
Misrepresentation of quality; unfair							●										●		●		
N. R. A. insignia, use of; regulated												●									●
Payment of dealers' salaries, commissions, expenses; unfair																		●			
Payment of commission, etc., to other than employees; unfair					●																
Prison goods, competitive basis	●	●																			
Returned goods allowance; limited					●	●				●				●							●
Returned goods time; limited								●						●							●
Sale of merchandise by franchised to other than franchised dealer; unfair																		●			
Selling subject to trial; restricted					●																
Split-box sales; prohibited										●											
Subterfuge, to avoid provisions of code; unfair								●				●		●							
Subterfuge, to conceal manufacturer to retailer sale; unfair												●									
Substitution; limited		●																			
Supplying goods to dealer guilty of code violation; unfair																		●			
Taking dealer notes and trade acceptances; limited										●								●			
Threats of lawsuits; prohibited	●			●						●						●	●				
Trade areas may be established								●		●		●					●		●		●
Violation of Food and Drug Act; prohibited		●																			
Wholesaler retail sales; controlled or prohibited	●	●	●							●						●		●			
HOURS: Employee weekly (varying with population)	1	2		1	1		1	1	2	4			1		3	1	1		1	1	
WAGES: Weekly (varying with population)	A	B		A	C		E	C	A	D			F			D	A		C		
Hourly (varying with population)					G			G	G	K					L		J		G	H	

KEY TO SYMBOLS

1. 40 Hours. 2. 44 Hours. 3. 90 Hours in two weeks. 4. 36 Hours.
A. \$14–\$15. B. \$10–\$15. C. \$15. D. \$14–\$16. E. \$12–\$15. F. \$14. G. 40c. H. 37½c. J. Females 34c; Males 37½c. K. 35c–40c. L. 37c –42c

Figure 34. Major Provisions of N. R. A. Wholesale Codes

Bureau of Foreign and Domestic Commerce, Marketing Research and Service Division, Chart Number 11, June 30, 1934.

DEFINITIONS OF TRADES

Wholesale or Distributing Trade (Gen'l.)	The general distribution service to retailers, commercial or industrial users, etc., in the following trades: Beauty and Barber Supplies, Buttons, Charcoal and Packaged Fuel, Cycle Jobbers, Electrical Supplies, Embroidery and Lace, Floor Covering, Hardware, Hats and Caps, Jewelry, Men's Novelty Jewelry, Men's Wear Buttons, Notions, Supplies, School Supplies, Sheet Metal, Silverware, Twine and Cordage, Woolen and Trimming Garment Supplies.
Food and Grocery	The selling to retailers, restaurants, etc., food and/or grocery products except meat products, fish or fresh fruit and produce. (Distributing principally through privately controlled warehouses).
Wallpaper	The distributing of wallpaper to retailers.
Coal	The distributing in railway cars or cargo vessels of anthracite, bituminous or lignite coal, fuel wood, coke, petroleum, carbon and other fuel not liquid.
Automobile	The selling to retailers of automobiles, parts and equipment, except motorcycles, fire apparatus, and tractors.
Machine Tool and Equipment	The selling of power-driven metal working machines and attachments to industrial users, etc.
Paper	The distributing by wholesalers of any or all lines of paper and paper products.
Construction Machinery	The distributing of any machinery, equipment, or attachments used in construction but not becoming a permanent part of the structure or project.
Lobster	The processing and wholesaling of lobsters and the storage and packing of live lobsters.
Millinery	The distributing of ladies', misses', and children's trimmed and untrimmed hats and incidental merchandise to retailers.
Stationery	The distributing customary line of Wholesale Stationers to retailers or industrial users.
Upholstery and Decorative Fabrics	The selling at wholesale of upholstery and decorative fabrics to interior decorators, upholsterers, and furniture manufacturers.
Industrial Supplies	The warehousing, selling, distributing and servicing in conjunction with tools, equipment and supplies for railroads, ships, mines, and factories.
Leather and Shoe Findings	The selling of leather and shoe findings, shoe-store supplies and shoe-repairing machinery to shoe repairers or retail trade.
Radio	The selling and wholesale warehouse service of Radio Receiving Sets, Television Receivers, Radio, Phonograph Combinations, Vacuum Tubes, and accessories and parts, to "Dealers."
Dry Goods	The selling and maintaining continuing stock of merchandise such as textiles, apparel, floor-coverings, novelties, and notions for retailers.
Fur	The distributing of fur coats, scarfs, trimmings, rugs, pocketbooks, muffs and kindred fur articles to retailers and industrial users.
Furriers Supplies	The selling for resale, repairing, remodeling and lining fur coats, scarfs, trimmings, etc.
Confectionery	The selling or distributing at wholesale, confections, candy, manufactured chocolate, chewing gum, and other confectionery products.
Tobacco	The selling at wholesale, cigars, cheroots, little cigars, cigarettes, smoking tobacco, chewing tobacco, and snuff.
Wool	The distributing of wool, shorn or pulled, new wool waste, noils and all other by-products of wool manufacturing, wool products from preparatory processes. (No definite trade practice provisions given)

pliance by national distributors with existing state legislation since it would eliminate the frequent requirement of existing state laws to *domesticate* in each state in order to enter into price contracts with local distributors.

Approximately 28 states had, by 1936, passed some form of antitrust or anti-discrimination legislation conforming in large part to the Clayton Act. Many of these acts are of long standing but had become inactive. They have been revived recently as a means to limit alleged price discrimination, partly no doubt because of depression psychology. Decisions on cases under these laws in the courts of Colorado and Nebraska may prove indicative of future developments in restrictive legislation designed to improve the pattern of competition in *intrastate commerce.* This trend in state legislation is conforming to the fashion of *Federal* legislation conceived to achieve the same objective in *interstate commerce.*

Sales tax legislation had spread to nearly half the states by the close of 1935. While most state sales tax laws are restricted to retail sales, in the four states of Arizona, North Carolina, Oklahoma, and Washington, *general* sales tax laws have been enacted which cover sales of wholesalers as well. The unpopularity of retail sales taxes coupled with the higher cost of collection may lead to a greater use of sales taxes on wholesale distribution. Such a tax has the advantage from the standpoint of the state, of greater ease in collection since there are fewer wholesalers than retailers. It should also be less expensive to administer and hence should yield larger net income to the states in proportion to the cost of collection. The total yield, however, would vary from state to state and might be quite small for states which have few wholesaling centers. A major economic objection is that the consumer might have to pay somewhat higher prices as a result of the pyramided markups of both wholesalers and retailers. This economic disadvantage might be offset in the minds of legislators by the practical consideration of the tax collector that since it would be a concealed tax it would be apt to cause less consumer resentment. Wholesalers would undoubtedly oppose such legislation because of the tendency it would have to raise their prices and

because of the trouble and cost of keeping records and making payments. The urgent and expanding requirements of state and Federal governments for revenue may, however, contribute to an increased use of such taxation.

One additional type of state tax legislation of great interest to wholesalers is the chain store licensing tax. By July 1, 1936, 21 states had such legislation on their statute books.[20] Sponsored by independent wholesalers and retailers, these laws are designed only in part as revenue measures, but largely to curb the growth of chain systems through imposing graduated taxes on stores above specified numbers. While this type of legislation has the earmarks of discrimination and is definitely aimed at a particular class of business men, a number of the laws have been upheld by the United States Supreme Court. The future of such laws is uncertain, however, since the action of the citizens of California in rejecting a referendum designed to impose a graduated license tax on the chain stores in that state indicates the possibility of similar action in other states, although a recent poll indicated that about 70 per cent of the respondents were antagonistic to chains. The action in California is not altogether conclusive, for great "war" chests were used in the battle by both sides and the result (which was obtained by a narrow margin) may have been due to the relative effectiveness of the campaigns.

One outcome of this class of laws has been the threat of certain chains to dispose of their retail outlets and concentrate upon the wholesaling angle of their business. Whether or not such a development will be widespread cannot be anticipated. If it should materialize it might have an unexpected and unwelcome repercussion upon wholesalers who sponsored the legislation, since it would give them more direct competition from the very source they sought to check. A second resultant of anti-chain laws in the various states has been the effort to secure Federal legislation which led to the passage of the Robinson-Patman Act in 1936.

[20] Harry P. Warhurst, "Domestic Commerce," Vol. XVIII, No. 4, p. 75, Aug. 10, 1936.

Robinson-Patman Act

Background of the Act.—There was a strong belief generally held among wholesale and retail distributors that the National Industrial Recovery Act with its codes of fair competition had been beneficial to them since it had attempted to place curbs upon price cutting and certain other aspects of competition deemed repugnant to business men. The withdrawal of the support of the N. R. A. left many distributors with a feeling of helplessness in that unfair trade practices, as they defined them, were no longer subject to legislative control. There has long been a strong undercurrent of thought among independent merchants that large-scale mass distributors, such as the chain systems, have enjoyed special price advantages growing out of hidden discounts not open to independent wholesale and retail middlemen. This feeling led to the introduction of several so-called anti-chain or anti-price-discrimination bills in the first session of the 74th Congress (1935), which were designed to amend the Clayton Act in the interest of the small-scale distributor. One of the strongest advocates of these measures was Congressman Wright Patman from Texas. The objective of this legislation, according to Mr. Patman, is brought out in the following statement which he made before the Committee on the Judiciary, which held hearings on these bills:

> We recognize, in the introduction of this bill, the rights of chain-stores and mail order houses to do business. They have just as much right to do business in this country as anyone else. This bill is not intended to destroy any right or benefit that they have—that they should have; this bill proposes to give all of the independent merchants of this country the same rights, privileges, benefits, and opportunities as the larger chains or concerns receive, and no more. In other words, it is a bill not to grant special privileges but to deny special privileges and benefits to a few, and to give equal rights to all and special privileges to none.[21]

The bill which Mr. Patman sponsored was supported in general by organized wholesalers, especially in the food field, by

[21] Hearings before Committee on the Judiciary, House of Representatives, First Session, 74th Congress, July 10, 11, 17, 18, 19, 1935, p. 4, Washington, D. C., U. S. Government Printing Office, 1935.

the organized retail druggists, by the National Food Brokers Association, and by other independent groups. Opposing the measure were the chain and mail order companies and other representatives of mass distribution. Failure to secure favorable action during the first session of the 74th Congress led to a renewed fight in the second session with much the same alignment of support, although the National Retail Dry Goods Association joined the opposition to this proposed legislation.[22] The demand for legislation was so insistent that a bill was finally passed and approved on June 19, 1936, since known as the Robinson-Patman Act.

Provisions of the Act.—This Act is at once an amendment to the Clayton Act and an entirely new law. Section 1, which amends the Clayton Act, makes it unlawful for sellers to discriminate in price between different buyers of like grade and quality where the effect of such discrimination may be substantially to lessen competition, to tend to create a monopoly, to injure, destroy or prevent competition with any person who grants or knowingly receives the benefit of such discrimination or with customers of either of them.

This section sets up certain defenses under the law. Price differentials which make only due allowances for differences in cost, including cost of manufacture, sale and delivery for varying quantities, are not affected, except that the Federal Trade Commission may determine quantity limits where it finds that available large-scale purchasers are so few as to render quantity price differentials unjustly discriminatory or promotive of monopoly. Under such conditions, quantity price differentials shall be limited to such differentials as the Federal Trade Commission shall prescribe. This amendment to the Clayton Act permits the selection of customers where done in good faith and when not in restraint of trade. It permits price changes under certain specified conditions to meet market fluctuations, to dispose of perishables, to avoid obsolescence of seasonal goods; it permits distress sales under court

[22] See Hearings before Subcommittee of the House Committee on the Judiciary, 74th Congress, 2nd session on H. R. 4995, H. R. 8442, and H. R. 10486. Feb. 3, 4, 5, 7, 1936 Serial 10—Pt. 2, Washington, D. C., U. S. Government Printing Office, 1936.

order, and bona fide closing-out sales. Any person may enter a complaint against another of discrimination in price, services, or facilities furnished. If proof of such discrimination is given at a hearing, the burden of justification is placed upon the accused, who must affirmatively refute the testimony against him or the Federal Trade Commission may order the discrimination terminated. The defendant may offer in rebuttal the fact that the alleged discrimination was made in good faith to meet competition. Other bases for justification appear to be that the sale was of services rather than of goods; that the transaction was in intrastate commerce rather than interstate; that the goods were sold for bona fide export trade; and that there was no discrimination because of actual cost differences.[23]

The Act endeavors to correct a practice which has been strongly opposed by brokers and other types of wholesale distributors, namely, the granting of brokerage commissions to large-scale buyers who purchase directly from producers. It is declared unlawful to pay or receive commissions or brokerages except for services rendered in the buying or selling of goods by a third party to such transactions. Commenting on this part of the bill (subsection (c) of Section 1) Representative Utterback pointed out to the House that,

> this subsection permits the payment of compensation by a seller to his broker or agent for services actually rendered in his behalf; likewise by a buyer to his broker or agent for services in connection with the purchase of goods actually rendered in his behalf; but it prohibits the direct or indirect payment of brokerage except for such services rendered. It prohibits its allowance by the buyer direct to the seller, or by the seller direct to the buyer; and it prohibits its payment by either to an agent or intermediary acting in fact for or in behalf, or subject to the direct or indirect control of the other.[24]

The wording of this section is ambiguous, however, and will have to await court action for clarification. Advertising allowances to selected customers are also attacked by a provision making it unlawful to pay or contract to pay to a cus-

[23] For an analysis of the legal implications of the Act see Nelson B. Gaskill, "What You May and May Not Do Under the New Price Discrimination Law"—The Kiplinger Washington Agency, Washington, D. C., 1936.

[24] From a compilation of comments on the Robinson-Patman Act issued by the Federal Trade Commission July 25, 1936, pp. 24-25.

tomer anything of value as compensation for services in the processing, handling, sale or offering for sale of merchandise, unless such payment is available *on proportionally equal terms* to all competing customers.

The Act further declares it unlawful to discriminate between purchasers, by furnishing services or facilities for processing, handling, selling or offering for sale to one purchaser and not to all on the same terms. It is, moreover, unlawful for a business man to induce or receive knowingly a discrimination in price which is prohibited by Section 1 of the Act.

In addition to the amendment to the Clayton Act, the Robinson-Patman Act contains three sections which constitute new law. One section merely specifies procedure for the Federal Trade Commission on cases pending or in process under the original Clayton Act, while another exempts cooperative associations from penalties under the Act for returning patronage dividends to members. The third, however, contains three provisions, which, overlapping in part the provisions of the amended Clayton Act, confuse the meaning of the new law:

1. It is unlawful to discriminate by giving discounts, rebates, allowances, or advertising service charges to one purchaser which are not accorded to competitors who buy a like grade, quality, and quantity.
2. It is unlawful to sell in one part of the country in order to destroy competition, or to eliminate a competitor by granting lower prices than those exacted elsewhere in the United States.
3. It is unlawful to sell at unreasonably low prices to destroy competition or to eliminate a competitor. A penalty for violation of $5,000 fine, imprisonment of not more than one year, or both, is provided by this part of the Act, making it a criminal statute.

Meaning of the Act to Wholesaling.[26]—An interpretation of the full implication of the Robinson-Patman Act for wholesale distribution must await the lengthy process of experience

[26] See also N. H. Engle, "Implications of the Robinson-Patman Act for Marketing," *The Journal of Marketing*, p. 75, Vol. 1, No. 2, Oct. 1936.

under the Act. The Federal Trade Commission, which is the administering agency, will have to formulate policies and render decisions. Disputes and court action are sure to emerge, with ultimate reference to the United States Supreme Court. Indeed, it seems certain that the Act will have to be amended before it can be expected to function. Mass distributors are aligned on one side against it, since it establishes restrictions upon practices which have contributed to their success. Independents, on the other hand, have generally favored the law although there are mixed feelings among them because of the lack of clarity in the wording of the Act. Clothed in ambiguous legal verbiage as it is, it leaves more questions unsolved than it answers. For example, the report of the Committee on the Judiciary on the purpose of the Act contains:

> The purpose of this proposed legislation is to restore, so far as possible, equality of opportunity in business by strengthening antitrust laws and by protecting trade and commerce against unfair trade practices and unlawful price discrimination, and also against restraint and monopoly for the better protection of consumers, workers, and independent producers, manufacturers, merchants, and other businessmen.[26]

However, the minority report of this committee was in sharp contrast, as evidenced by the following quotation:

> To my mind that statement might well read as follows: The purpose of this proposed legislation is to destroy as far as possible equality of opportunity in business by weakening antitrust laws and by subjecting trade and commerce to uttermost unfair trade practices and unlawful price discriminations. It will tend toward creating monopoly and thereby weaken the rights of the consumers, workers, and independent producers, manufacturers, and merchants. It will, above all, increase prices and thereby must markedly and most seriously affect to its disadvantage the consuming public and lower the standard of living.[27]

Many independent middlemen, however, rejoice in the passage of this Act, although recognizing some of its limitations as it now stands.[28] A possible outcome of the Act may be to

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[26] 74th Congress, 2nd Session, H. R. Report No. 2287, Congressman Utterback's statement, p. 3.

[27] *Ibid.*, Pt. 2, Congressman Celler's statement, pp. 1-2.

[28] This attitude is well expressed by a commentator of the Act as follows, "the most heartening thing about the passing of this Robinson-Patman bill, notwithstanding its amendments, notwithstanding that the independent dealer did not receive all he asked for, is that it has at least shown a great change in the thinking of the times." Norvell Saunders, "The Robinson-Patman Anti-Price-Discrimination Law," *Hardware Age*, p. 17, Vol. 138, No. 2, July 16, 1936.

increase integration with its concomitant telescoping of the distribution functions into a single organization. If large-scale retailers are cut off from a source of income they have enjoyed, they may expand their own activities into the field of manufacturing. Manufacturers, on the other hand, may extend their activities into retailing. Both of these possibilities would spell increased complications for wholesalers, brokers, and other middlemen in the wholesale field, but attempts are being made by law to prohibit manufacturers from operating retail stores and to prevent retailers from equally integrating on a vertical basis.

A major problem for wholesalers lies in the fact that the Robinson-Patman Act fails to allow "the usual wholesale discounts given them not necessarily on account of the size of the order but on account of the separate classification by the manufacturer of wholesaler from retailer." [20] This is the question of *functional differentials* sought for by wholesalers in the N. R. A. wholesale codes. The original draft of the law contained a provision designed to protect the independent wholesaler in his claim to a discount simply because he was a wholesaler, a provision which was stricken out in the process of revision.

The original bill introduced by Mr. Patman on June 11, 1935 stated that price discrimination was unlawful between different purchasers *"Provided,* that nothing herein contained shall prevent differentials in prices as between purchasers depending solely upon whether they purchase for resale to wholesalers, to retailers, or to consumers. . . ." This was amended in committee by striking it all out and inserting the following:

(1) That nothing herein contained shall prevent or require differentials as between purchasers depending solely upon whether they purchase for resale to wholesalers, to retailers, or to consumers or for use in further manufacture; for the purpose of such classification of customers as wholesalers or jobbers, or retailers, the character of the selling of the purchaser and not the buying shall determine the classification, and any purchaser who, directly or indirectly, through a subsidiary or affiliated concern or broker, does both a wholesale and retail business shall, irrespective of quantity purchased, be classified (1) as a whole-

[20] Harold M. Fleming, "Price Discrimination Act Seen Productive of Trade Confusion," *The Christian Science Monitor,* Tuesday, July 14, 1936.

saler on purchases for sale to retail dealers only, not owned or controlled, directly or indirectly, by the purchaser; and (2) as a retailer on purchases for sale to consumers.[30]

Whether this means that the wholesaler can no longer claim the right to a functional discount or differential is debatable. In some quarters it is held that his position on this point has not been changed in the slightest by the Act in question while others insist that the Act has left wholesaler with little or no protection apart from his ability to purchase in large quantities. If this latter interpretation of the Act is correct it will be a severe blow to wholesalers who have in the past enjoyed at least by common consent, a customary wholesale discount. Whether or not the law will deprive wholesale middlemen of their long-enjoyed privilege, only experience can establish, but the first interpretation seems by far the more reasonable of the two.

A possible consequence of serious import to wholesalers is encouragement of decentralization which may or may not be combined with integration. Since new law does not cover *intrastate* (except when one of the discriminatory transactions is in interstate commerce), commerce there may be a tendency for manufacturers and national distributors to restrict their efforts within state lines and multiply separate units, keeping the operations of each within state areas. This tendency may be further strengthened by a possible interpretation of the Act that basing-point prices are discriminatory. Should decentralization increase on a substantial scale, direct selling would be facilitated and the regular wholesaler might suffer. Such a development would be most serious for national and sectional wholesalers. Local wholesalers might find their position strengthened somewhat by decentralization if it is unaccompanied by integrated retailing. It seems unlikely, however, that there will be any material encouragement of decentralization stemming from the Act, since the presumption is that centralized *ownership* would be sufficient to class the activities of a business as *interstate* rather than *intrastate*, which would leave the company subject to the jurisdiction of the law. From still another angle, national and sectional

[30] Committee Draft—Committee on Judiciary, 74th Congress, 2d Session, H. R. 8442, Report No. 2287.

wholesalers are favored by the Act so long as they purchase in larger quantities than do local wholesalers and thus qualify for higher discounts.

It is possible that the Robinson-Patman Act may have the further effect of narrowing the channels of competition by establishing a ceiling for discounts or a floor for prices. If so, it should contribute to a more intelligent and scientific pricing policy by manufacturers and distributors alike. Such a consequence should in turn provide a desirable stimulus to the development of distribution cost accounting and to more scientific sales analysis.

The Act is important to wholesale distribution, moreover, not only for its attempt to modify competition between the old and the new in the distribution struggle, but even more as a forerunner of what may be expected to follow. The leading congressional advocate of the measure, Representative Patman, has announced his intention of submitting additional legislation in order to draw still tighter the lines of competition.[31]

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[31] "Following is the bill which Congressman Wright Patman of Texas, co-sponsor of the Robinson-Patman Act, plans to introduce in Congress during the next session.

A bill to amend the Clayton Act in order further to protect interstate commerce against restraints and monopolies.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That section 3 of the Act entitled 'An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes,' approved October 15, 1914, as amended, is amended by adding after section 3 a new section as follows:

'Sec. 3 (a). It is hereby declared that the enactment of this section is necessary in order to protect commerce from restraints and monopolies which result in certain cases where persons are concerned with both the manufacturing and retailing of articles or materials.

'(b) It shall be unlawful for any manufacturer or any affiliate of such manufacturer to directly or indirectly transport or cause to be transported, in commerce, any article or material produced by such manufacturer for sale or distribution at retail by such manufacturer or by an affiliate of such manufacturer.

'(c) For the purposes of this section—

'(1) The term 'person' means an individual, a corporation, a partnership, an association, a joint-stock company, a business trust, or an organized group of any of the foregoing, whether or not incorporated.

'(2) The term 'manufacturer' means any person, other than an individual, engaged in the producing, manufacturing, processing, packing, refining, or preparation of articles or materials for sale or consumption.

'(3) A person shall be deemed to be an affiliate of a manufacturer if such person controls or is controlled by, or is under common control with, such manufacturer.

'(4) The exhibition of a motion picture, for a charge, shall be deemed to be a sale at retail.

'(5) A person shall be deemed to control another person if having over the latter (A) actual or legal control, whether direct or indirect, or (B) any direct or indirect power or influence (whether arising through direct or indirect ownership or control of stock or other capital, evidences of indebtedness, or physical properties or equipment, through contract, lease, or agency arrangements, through interlocking directorates or officers, or through any other means of circumstance) which can be used to affect, in any substantial manner, the policies or conduct of such other person affecting competitive relationships between persons engaged in the business of selling articles or materials at retail.

'Sec. 2. This Act shall take effect three years after the date of its enactment.'" Domestic Commerce, Vol. XVIII, No. 10, p. 210, Oct. 10, 1936.

Since Federal legislation tends to foster related state activity, it appears that a new era of increased governmental control of the distributive system is dawning.

It is to be hoped, however, that no extensive revision of the wholesaling structure will be attempted without first setting up adequate machinery to find the necessary facts for intelligent action. This brings up once more the problem of economic planning for wholesaling under a capitalistic system which was discussed in Chapter 26. It is a fitting note to strike in concluding this book on wholesaling economics to point out and to urge the necessity for more thoroughgoing scientific research in wholesale distribution as a prelude to future progress. Wholesaling has failed to put its own house in order largely through the absence of foresight and a scientific attitude towards its problems. Wholesale distributors could do much to avoid unsound legislation, based upon half truths, by insuring that the facts about wholesaling be made widely known. As indicated in Chapter 25, wholesaling has nothing to lose by way of comparison with other segments of our economy on the score of efficiency. It has no dark secrets to conceal from the public but has everything to gain by revealing a complete picture of its methods and costs of operation.

Continuous success in wholesaling for many individual businesses requires a thorough study of their own operations and a comparison of their own results with operating data for their trade. The adoption of uniform methods of accounting is a prerequisite to widespread utilization of this policy. It requires, further, a willingness on the part of each firm to report its facts to its own trade association, to University Bureaus of Business Research, and to such Federal agencies as the Department of Commerce and the Federal Trade Commission. It means a recognition of the vital necessity for establishing their own research departments and utilizing them to achieve more efficient operation of wholesaling businesses. It is only through the realization, by wholesalers and other middlemen in the wholesale field, that a scientific age which demands a revolutionary revision of business practice has dawned on the American business scene, that there is hope for the future.

APPENDICES

APPENDIX A

(Special tabulations prepared by N. H. Engle from income study work sheets—1935)

TABLE I. INCOME PAID OUT, BY INDUSTRIAL DIVISIONS

MILLIONS OF DOLLARS

Line	Item	1929	1930	1931	1932	1933	1934
1.	Agriculture	6,171	5,532	4,345	3,292	3,074	3,356
2.	Mining	2,085	1,727	1,218	834	789	1,020
3.	Electric Light and Power and Gas	1,303	1,474	1,403	1,275	1,166	1,143
4.	Manufacturing	18,010	15,909	12,356	8,530	8,267	10,003
5.	Construction	3,258	2,945	1,980	959	780	881
6.	Transportation	6,591	6,126	5,181	4,103	3,823	4,089
7.	Communication	915	947	890	800	726	749
8.	Trade	11,385	10,840	9,555	7,538	6,617	7,177
	Wholesale	**3,795**	**3,520**	**2,963**	**2,299**	**2,002**	**2,193**
	Retail	7,590	7,320	6,592	5,239	4,615	4,984
9.	Finance	9,366	8,520	7,404	6,217	5,437	5,411
10.	Government	6,805	7,043	7,187	7,150	6,718	7,018
11.	Service	8,239	7,775	6,762	5,309	4,763	5,270
12.	Miscellaneous	4,864	4,472	3,743	2,916	2,770	2,999
13.	Total	78,992	73,310	62,024	48,923	44,930	49,116

PERCENTAGES OF 1929

Line	Item	1929	1930	1931	1932	1933	1934
1.	Agriculture	100.0	89.6	70.4	53.3	49.8	54.4
2.	Mining	100.0	82.8	58.4	40.0	37.8	48.9
3.	Electric Light and Power and Gas	100.0	113.1	107.7	97.9	89.5	87.7
4.	Manufacturing	100.0	88.3	68.6	47.4	45.9	55.5
5.	Construction	100.0	90.4	60.8	29.4	23.9	27.0
6.	Transportation	100.0	92.9	78.6	62.3	58.0	62.0
7.	Communication	100.0	103.5	97.3	87.4	79.3	81.9
8.	Trade	100.0	95.2	83.9	66.2	58.1	63.0
	Wholesale	**100.0**	**92.8**	**78.1**	**60.6**	**52.8**	**57.8**
	Retail	100.0	96.4	86.9	69.0	60.8	65.7
9.	Finance	100.0	91.0	79.1	66.4	58.1	57.8
10.	Government	100.0	103.5	105.6	105.1	98.7	103.1
11.	Service	100.0	94.4	82.1	64.4	57.8	64.0
12.	Miscellaneous	100.0	91.9	77.0	60.0	56.9	61.7
13.	Total	100.0	92.8	78.5	61.9	56.9	62.2

(Source: Bureau of Foreign and Domestic Commerce.)

Table II. Percentage Distribution of Income Paid Out, by Industrial Divisions

Line	Item	1929	1930	1931	1932	1933	1934
1.	Agriculture	7.8	7.5	7.0	6.7	6.8	6.8
2.	Mining	2.6	2.4	2.0	1.7	1.8	2.1
3.	Electric Light and Power and Gas	1.7	2.0	2.3	2.6	2.6	2.3
4.	Manufacturing	22.8	21.7	19.9	17.4	18.4	20.4
5.	Construction	4.1	4.0	3.2	2.0	1.7	1.8
6.	Transportation	8.3	8.4	8.4	8.4	8.5	8.3
7.	Communication	1.2	1.3	1.4	1.6	1.6	1.5
8.	Trade	14.4	14.8	15.4	15.4	14.7	14.6
	Wholesale	**4.8**	**4.8**	**4.8**	**4.7**	**4.4**	**4.5**
	Retail	9.6	10.0	10.6	10.7	10.3	10.1
9.	Finance	11.9	11.6	11.9	12.7	12.1	11.1
10.	Government	8.6	9.6	11.6	14.6	15.0	14.3
11.	Service	10.4	10.6	10.9	10.9	10.6	10.7
12.	Miscellaneous	6.2	6.1	6.0	6.0	6.2	6.1
13.	Total	100.0	100.0	100.0	100.0	100.0	100.0

(Source: Bureau of Foreign and Domestic Commerce.)

Table III. Income Paid Out and Produced—Wholesale Trade

Thousands of Dollars

Item	1929	1930	1931	1932	1933	1934
Total income produced	3,883,400	3,093,484	2,409,698	1,721,597	1,945,004	2,154,163
Per cent of 1929	100.0	79.7	62.1	44.3	50.1	55.5
Corporate savings	33,535	−233,839	−321,511	−319,416	−31,402	−21,526
Business savings of individuals	54,355	−192,161	−231,572	−257,843	−25,346	−17,375
Income paid out	3,795,510	3,519,484	2,962,781	2,298,856	2,001,752	2,193,064

(Source: Bureau of Foreign and Domestic Commerce.)

TABLE IV. INCOME PAID OUT—WHOLESALE TRADE

THOUSANDS OF DOLLARS

Line	Item	1929	1930	1931	1932	1933	1934
1.	Total income paid out.	3,795,510	3,519,484	2,962,781	2,298,856	2,001,752	2,193,064
2.	Total compensation of employees. .	3,012,526	2,871,219	2,468,157	1,934,632	1,712,420	1,898,232
3.	Salaries.	385,222	362,879	313,185	252,320	223,325	247,603
4.	Wages.	2,624,908	2,505,775	2,152,111	1,680,183	1,487,116	1,648,779
5.	Other labor income.	2,396	2,565	2,861	2,129	1,979	1,850
6.	Total property income paid out.	214,882	194,066	149,979	83,496	24,684	25,039
7.	Dividends.	199,784	177,557	131,499	68,256	10,253	11,425
8.	Interest.	15,098	16,509	18,480	15,240	14,431	13,614
9.	Entrepreneurial withdrawals.	568,102	454,199	344,645	280,728	264,648	269,793

PER CENT

Line	Item	1929	1930	1931	1932	1933	1934
1.	Total income paid out.	100.0	92.7	78.1	60.6	52.7	57.8
2.	Total compensation of employees. .	100.0	95.3	81.9	64.2	56.8	63.0
3.	Salaries.	100.0	94.2	81.3	65.5	58 0	64 3
4.	Wages.	100.0	95.5	82.0	64.0	56.7	62.8
5.	Other labor income.	100.0	107.1	119.4	88.9	82.6	77.2
6.	Total property income paid out.	100.0	90.3	69.8	38.9	11.5	11.7
7.	Dividends.	100.0	88.9	65.8	34.2	5.1	5.7
8.	Interest.	100.0	109.3	122.4	100.9	95.6	90.2
9.	Entrepreneurial withdrawals.	100.0	80.0	60.7	49.4	46.6	47.5

(Source: Bureau of Foreign and Domestic Commerce.)

TABLE V. PERCENTAGE DISTRIBUTION OF INCOME PAID OUT—WHOLESALE AND RETAIL TRADE

WHOLESALE

Line	Item	Percentages of Income Paid Out					
		1929	1930	1931	1932	1933	1934
1.	Salaries and wages........	79.3	81.5	83.2	84.1	85.4	86.5
2.	Other labor incomes.......	.1	.1	.1	.1	.1	.1
3.	Total compensation of employees..........	79.4	81.6	83.3	84.2	85.5	86.6
4.	Dividends.............	5.3	5.0	4.4	3.0	.5	.5
5.	Interest...............	.4	.5	.6	.7	.7	.6
6.	Total property income paid out..............	5.7	5.5	5.1	3.6	1.2	1.1
7.	Withdrawals of entrepreneurs..............	14.9	12.9	11.6	12.2	13.3	12.3
8.	Total income paid out..	100.0	100.0	100.0	100.0	100.0	100.0

RETAIL

Line	Item	1929	1930	1931	1932	1933	1934
1.	Salaries and wages........	68.4	67.6	65.7	63.3	63.1	64.2
2.	Other labor income.......	.1	.1	.1	.1	.1	.1
3.	Total compensation of employees..........	68.5	67.7	65.8	63.4	63.2	64.3
4.	Dividends..............	4.8	4.4	3.9	2.8	2.4	2.5
5.	Interest................	.6	.7	.7	.8	.8	.6
6.	Total property income paid out............	5.4	5.1	4.6	3.6	3.2	3.1
7.	Withdrawals of entrepreneurs.............	26.1	27.2	29.6	33.0	33.6	32.6
8.	Total income paid out..	100.0	100.0	100.0	100.0	100.0	100.0

(Source: Bureau of Foreign and Domestic Commerce.)

APPEN

TABLE VI. OPERATING EXPENSES OF 17

(Net Sales

Net Sales Years OPERATING EXPENSES	$15,739,094 1924	$15,155,402 1925	$14,850,227 1926	$14,326,693 1927
Total Salesforce Expense	2.43%	2.56%	2.52%	2.48%
Advertising Other Selling Expense	.08	.05	.06	.08
Wages of Receiving and Shipping Force	1.39	1.41	1.41	1.55
Warehouse and Shipping Supplies Outward Freight, Express, Parcel Post Outward Truckage	1.10	1.14	1.33	1.19
Executive Salaries	.92	1.08	1.10	1.01
Office Salaries and Wages	1.01	.91	1.06	.99
Office Supplies, Postage and Stationery Telephone and Telegraph Other Buying, Management, and Office	.26	.29	.24	.27
Rent	.33	.39	.43	.44
Heat, Light, Power and Water	.09	.11	.09	.09
Taxes	.37	.39	.42	.36
Insurance	.11	.12	.11	.12
Repairs	.03	.03	.04	.04
Depreciation	.08	.06	.05	.11
Losses from Bad Debts	.41	.51	.41	.41
Miscellaneous Expense	.34	.23	.20	.38
Total Expense before Interest	8.95%	9.28%	9.47%	9.52%

(Source: Ohio State University Bureau of

DIX B

IDENTICAL OHIO WHOLESALE GROCERS: 1924-1934

= 100%)

$14,078,568 1928	$13,947,543 1929	$13,145,798 1930	$11,164,181 1931	$8,715,739 1932	$8,852,499 1933	$10,645,959 1934
2.52%	2.56%	2.56%	2.66%	2.86%	2.60%	2.44%
.08	.10	.12	.17	.19	.21	.22
1.42	1.42	1.52	1.53	1.54	1.38	1.31
1.18	1.25	1.25	1.51	1.74	1.58	1.49
1.10	1.16	1.24	1.35	1.55	1.42	1.18
1.14	1.11	1.15	1.15	1.27	1.08	.96
.26	.25	.26	.28	.29	.27	.26
.40	.43	.47	.51	.61	.57	.47
.10	.11	.12	.13	.14	.16	.14
.40	.38	.43	.33	.46	.45	.35
.13	.14	.14	.18	.19	.19	.18
.07	.09	.06	.02	.02	.01	.03
.07	.11	.10	.08	.10	.07	.07
.43	.46	.48	.77	1.25	.90	.64
.27	.28	.23	.24	.34	.28	.26
9.57%	9.85%	10.13%	10.91%	12.55%	11.17%	10.00%

Business Research, Bulletin No. 50, p. 12.)

APPEN

TABLE VII. OPERATING EXPENSES IN THE

Net Sales

OPERATING EXPENSES	1929	1928	1927	1926
Total Salesforce Expense	5.00%	5.10%	4.93%	4.92%
Advertising	.54	.47	.51	.49
Wages of Receiving and Shipping Force	2.23	2.32	2.42	2.26
Warehouse and Shipping Supplies Outward Freight, Express, Parcel Post Outward Truckage	.82	.85	.85	.93
Executive Salaries	2.41	2.40	2.41	2.43
Office Salaries	2.09	2.08	2.00	1.98
Office Supplies, Postage and Stationery Telephone and Telegraph	.73	.72	.68	.68
Rent and Real Estate Charges	1.22	1.21	1.11	1.21
Heat, Light, Water and Power	.18	.19	.17	.19
Insurance and Taxes	.88	.88	.86	.87
Repairs and Depreciation	.37	.36	.43	.38
Losses from Bad Debts	.61	.63	.59	.60
Miscellaneous Expense	.51	.47	.52	.51
Total Expense Before Interest	17.41%	17.45%	17.33%	17.13%
Total Interest	2.69	2.67	2.82	2.92
Total Operating Expenses	19.96%	20.02%	20.24%	19.97%

[a] Since not all firms included in these data reported on every item, the sum of the firms covered. The discrepancy, however, is very slight and not of any significance.

(Source: "Overhead Expense in Wholesale Hardware Distribution,"

DIX C

Wholesale Hardware Business: 1919-1929

- 100%

1925	1924	1923	1922	1921	1920	1919
4.97%	4.80%	4.58%	4.69%	4.74%	4.11%	4.41%
.53	.59	.50	.48	.47	.45	.36
2.29	2.22	2.16	2.24	2.50	2.15	1.97
1.39	.87	.82	.88	.87	.85	.79
2.29	2.32	2.14	2.29	2.36	2.05	1.97
1.94	2.04	1.91	2.10	2.13	1.71	1.67
.69	.68	.67	.73	.70	.63	.62
1.12	1.09	1.01	1.07	1.05	.76	.82
.17	.17	.16	.16	.16	.14	.16
.89	.93	.88	.93	.99	.96	.79
.38	.38	.39	.37	.43	.32	.32
.54	.51	.63	.79	.70	.37	.35
.49	.56	.55	.65	.60	.64	.67
16.72%	16.91%	16.22%	17.20%	17.40%	14.84%	14.11%
2.85	2.86	2.92	3.09	3.19	2.34	2.47
19.55%	19.72%	19.08%	20.30%	20.47%	17.06%	16.59%

averages of each item does not equal exactly the total average expenses for all of the

The National Wholesale Hardware Association of the U. S., 1929.)

APPENDIX D

TABLE VIII. RETURN ON INVESTMENT AND SALES—664 LARGE IDENTICAL TRADING CORPORATIONS: 1919-1928

INCOME AS PERCENTAGE OF CAPITALIZATION

Year	Retail Trade	Wholesale Trade: Total	Drugs	Dry Goods	Groceries	Hardware	Importers and Exporters	Building Materials and Lumber	Paper	Miscellaneous
1919	25.5	23.0	18.0	37.2	21.7	21.1	24.9	28.1	18.1	22.3
1920	9.5	13.8	19.7	5.4	4.7	16.8	12.2	14.2	28.4	15.6
1921	8.3	2.4	7.6	6.1	2.6	−1.5	9.2	2.5	−2.7	2.0
1922	16.7	11.2	10.2	11.6	11.5	9.2	16.3	11 0	9.9	11.4
1923	16.2	13.7	13.2	12.6	11.0	12.9	13.5	8.5	13.3	16.6
1924	15.1	10.0	11.8	7.4	10.8	6.8	11.1	6.7	10.6	11.5
1925	16.1	9.6	11.5	9.1	9.3	8.6	6.5	6.2	10.5	11.2
1926	15.3	9.5	11.0	6.9	7.7	7.7	6.8	6.7	8.4	12 9
1927	15.2	8.6	9.9	9.1	7.8	7.7	9.7	4 8	8.4	9 3
1928	13.7	8.7	10.4	8.4	7.4	8.6	10.7	4.5	10.2	8 7
Average 1919–1928	14.9	10.7	11.9	10.9	9.2	9.5	11.3	7.9	11.3	11.9

INCOME AS PERCENTAGE OF SALES

Year	Retail Trade	Wholesale Trade: Total	Drugs	Dry Goods	Groceries	Hardware	Importers and Exporters	Building Materials and Lumber	Paper	Miscellaneous
Number of Corporations	283	292	25	29	59	43	23	13	18	82
Average Capital (Millions of dollars)	6.81	1.99	1.25	1.53	1.56	2.25	2.34	1.39	2.32	2 49
1919	8.7%	5.7%	4.5%	10.2%	3.9%	7.6%	7.1%	5.0%	3.5%	5.8%
1920	3.6	3.6	5.0	1.6	0.9	6.3	3.1	6.2	4.6	4 2
1921	3.5	0 9	2.7	2.3	0.7	−0.8	2.2	2.0	−0.1	0 8
1922	6.9	3.8	3.7	4.3	3.2	4.5	4.0	5.4	2.3	4.0
1923	6.7	4.4	4.5	4.5	2.9	6.1	3.9	3.4	3.0	5.5
1924	6.2	3.4	4.2	3 0	2.7	3.5	3.7	3.0	2.4	3.9
1925	6.4	3.3	4.1	3.6	2.4	4.3	2.0	2.8	2.5	3.8
1926	5.9	3.2	3.8	2.8	2.0	3.9	2.5	2.9	2.2	4.2
1927	5.7	3.0	3.5	3.8	2.1	4.0	3.5	2.2	2.1	3.2
1928	5.3	3.2	4.3	3.6	2.0	4.5	4.7	2.0	2.7	3.2
Average 1919–1928	5.8	3.5	4.0	4.0	2.3	4.5	3.5	3.5	2.6	3.9

(Source: Ralph C. Epstein, "Industrial Profits in the United States," pp. 309, 310, 318-320. N. Y., Nat. Bur. of Economic Research, 1934.)

APPENDIX E

TABLE IX. TYPES OF WHOLESALE ESTABLISHMENTS IN THE UNITED STATES: 1935

(Sales expressed in millions of dollars)

Type of Establishment	Establishments: Number	Establishments: % of Total	Net Sales: Amount	Net Sales: % of Total	Net Sales: % change from 1933	Net Sales: % change from 1929	Operating Expenses % of Sales
Total[a]	176,062	100.0	$42,204	100.0	[b]	[b]	9.8
Wholesalers proper	88,723	50.4	17,509	41.5	+35.3	−39.9	12.7
Wholesale merchants	80,340	45.6	15,183	36.0	+35.0	−39.8	13.2
"Regular" wholesalers	78,073	44.3	14,356	34.0	[c]	[c]	13.2
Voluntary group wholesalers	132	.1	99	.2	[c]	[c]	9.1
Converters	502	.3	284	.7	[c]	+31.9	8.8
Industrial distributors	1,633	.9	444	1.1	[c]	−43.8	16.4
Exporters	503	.3	523	1.2	−6.3	−65.3	9.6
Importers	2,237	1.3	1,059	2.5	+36.4	−41.5	9.3
Limited-function wholesalers	5,643	3.2	744	1.8	+107.4	+24.1	9.0
Drop shippers or desk jobbers	1,027	.6	361	.9	[c]	+49.3	6.4
Mail order wholesalers	189	.1	14	[d]	[c]	−69.6	21.4
Retailer cooperative warehouses	169	.1	156	.4	[c]	[c]	6.4
Wagon distributors	4,258	2.4	213	.5	[c]	−76.1	14.6
Manufacturers' sales branches	15,794	9.0	11,021	26.1	+46.5	−32.2	10.2
With stocks	11,640	6.6	7,382	17.5	+44.2	[c]	11.9
Without stocks	4,154	2.4	3,639	8.6	+51.2	[c]	6.6
Bulk tank stations	26,977	15.3	2,680	6.4	+42.5	+12.6	14.4
Assemblers and country buyers	26,492	15.0	2,458	5.8	+42.2	−46.9	6.7
Assemblers of farm products	12,317	7.0	882	2.1	+23.9	−61.3	8.5
Cooperative marketing ass'ns	2,102	1.2	922	2.2	+42.6	−32.9	6.2
Cream stations	3,620	2.0	31	.1	−.3	[b]	6.5
Elevators	8,453	4.8	623	1.4	+84.5	−36.8	4.8
Agents and brokers	18,076	10.3	8,536	20.2	+31.8	−39.9	3.0
Brokers	3,882	2.2	2,632	6.2	+26.2	−34.7	1.4
Commission merchants	3,130	1.8	2,592	6.1	+17.5	−44.3	2.5
Export agencies	493	.3	282	.7	+108.5	−29.3	5.3
Import agencies	333	.2	211	.5	+317.3	+269.0	4.7
Manufacturers' agents	7,545	4.3	770	1.8	+34.1	−56.6	5.7
Selling agents	1,708	1.0	1,435	3.4	+45.5	−45.1	4.5
Auction companies	602	.3	379	.9	[c]	+1.7	2.6
Other agents	383	.2	235	.6	[c]	[c]	3.0

(Sources for tables ix, x, and xi adapted from the data presented in the Census of Business: 1935, Wholesale Distribution, U. S. Summary, November, 1936; Census of American Business: 1933, Wholesale Distribution Vol. 1, p. A-1, May, 1935; and Fifteenth Census of the United States, Distribution Vol. II, p. 81, U. S. Government Printing Office, 1933.)

[a] Unfortunately, certain changes were made in the 1935 census which make exact comparisons with the results of the two preceding censuses very difficult, if not impossible. Despite the fact that chain store warehouses are generally recognized as wholesale establishments owned and operated by chain store systems, and were so treated in the 1929 and 1933 enumerations, these places of business were included for 1935 in the retail census. Similar treatment was accorded to the purchasing offices of retail chains, while central offices of multi-unit wholesalers were altogether excluded. Were the data for 1935 presented on the same coverage basis as in former years, it is believed that the number of wholesale establishments would exceed 177,000 and the volume of trade would be approximately $45 billion. The 1935 data are no doubt further understated because of refusals of some firms, in the absence of mandatory legislation, to report.

[b] The totals for the 3 years in question are not comparable, largely because of the exclusion from the 1935 data of chain store warehouses, some factors in the textile trade, and certain central offices engaged in the distribution of goods. It is believed that if a proper adjustment were made for these items, the 1935 volume would show an increase of around 45% over the business reported by wholesale establishments for 1933 and a decrease of about 32% from the 1929 total.

[c] No comparable classifications.

[d] Less than one-tenth of 1%.

TABLE X. WHOLESALE TRADE FOR THE UNITED STATES DURING 1935, ALL TYPES OF ESTABLISHMENTS BY KIND OF BUSINESS

Kind of Business	Number of Establishments: 1935	Number of Establishments: % Increase over 1933	Net Sales: 1935 [a] (In millions)	Net Sales: % Increase over 1933 [b]
Amusement and sporting goods	1,657	6.8	$ 343	26
Automotive products	7,041	11.7	2,155	147
Chemicals and paints	2,613	5.7	1,007	54
Clothing and furnishings	5,693	30.1	1,396	40
Coal and coke	1,220	11.7 [d]	810	28
Drugs and drug sundries	1,993	27.6	600	15
Drugs (full line)	300	[c]	317	[c]
Drugs and sundries (specialty lines)	1,693	[c]	283	[c]
Dry goods	4,886	1.9	2,378	6
Full line	319	[c]	283	[c]
Specialty lines	4,567	[c]	2,095	[c]
Electrical goods	3,759	16.3	1,112	58
Farm products—raw materials	19,467	15.9	5,657	46
Farm products—consumer goods	23,756	.4	3,610	14
Farm supplies	2,330	5.6 [d]	447	23
Furniture and home furnishings	2,740	1.6 [d]	453	28
General merchandise	280	45.1	428	76
Groceries and foods (except farm products)	22,048	7.5 [d]	7,731	2
Full line	3,854	[c]	1,964	[c]
Specialty lines	18,194	[c]	5,767	[c]
Hardware	1,509	.9	488	24
Jewelry and optical goods	2,213	6.8	285	91
Lumber and building materials	4,141	11.3	911	75
Machinery, equipment and supplies	13,469	17.6	2,244	77
Metals and metal work (except scrap)	1,936	2.5 [d]	1,720	40
Paper and its products	3,172	11.3	731	22
Petroleum and its products	27,845	2.1 [d]	2,949	29
Plumbing and heating equipment and supplies	2,713	20.6	394	49
Tobacco and its products (except leaf)	2,453	23.4	1,516	20
Waste materials	4,925	44.1	434	53
Beer, wine and liquor	5,978	[c]	1,065	[c]
All other	6,225	[c]	1,341	[c]

[a] Inasmuch as the volume of business is shown in this table in millions and since these statistics are not as yet final, the figures are to be taken merely as approximations.

[b] To make the comparison more meaningful, the business of chain store warehouses was deducted from the 1933 data in computing the approximate percentage increase in 1935 over 1933.

[c] No strictly comparable classifications are conveniently available.

[d] Decrease.

TABLE XI. TOTAL OPERATING EXPENSES OF SELECTED TYPES OF WHOLESALE ORGANIZATIONS, BY KIND OF BUSINESS: 1935

(Percentage of net sales)

Kind of Business	Wholesalers Proper	Manufacturers' Sales Branches		Agents and Brokers
		With Stocks	Without Stocks	
Amusement and sporting goods	18.3	18.8	16.8	13.7
Automotive products	16.9	7.2	6.7	5.9
Beer, wine and liquors	13.2	14.1	11.4	4.3
Chemicals and paints	16.7	14.6	10.2	10.2
Clothing and furnishings	13.7	12.1	7.5	3.4
Coal and coke	9.4	17.0	3.1	5.9
Drugs (full line)	12.7	....	....	....
Drugs and drug sundries (specialty lines)	20.8	26.5	31.5	7.5
Dry goods (full line)	14.4	....	....	.8
Dry goods (specialty lines)	11.4	10.8	3.7	2.8
Electrical goods	17.4	9.3	6.0	7.1
Farm products (raw materials)	6.9	....	....	1.7
Farm products (consumer goods)	11.0	23.3	18.2	3.8
Farm supplies	12.5	14.0	13.5	2.5
Furniture and house furnishings	17.9	13.9	7.7	5.3
General merchandise	7.8	....	....	3.7
Groceries (full line)	8.9	....	....	2.4
Groceries (specialty lines)	12.4	9.2	13.5	1.5
Hardware	18.2	15.2	9.2	6.5
Jewelry and optical goods	19.6	11.9	9.9	6.4
Lumber and construction materials	16.7	16.6	11.2	6.3
Machinery, equipment and supplies	20.6	20.9	6.4	9.7
Metals and metal work (except scrap)	13.3	9.8	2.9	3.0
Paper and its products	18.4	12.3	5.9	5.2
Petroleum and its products	12.9	20.9	13.8	2.9
Plumbing and heating equipment	19.8	20.8	13.6	10.4
Tobacco and its products (except leaf)	5.5	12.2	2.5	3.2
Waste materials	14.6	....	....	4.8
All other	13.2	10.8	9.9	2.5

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(*n*—footnote)

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